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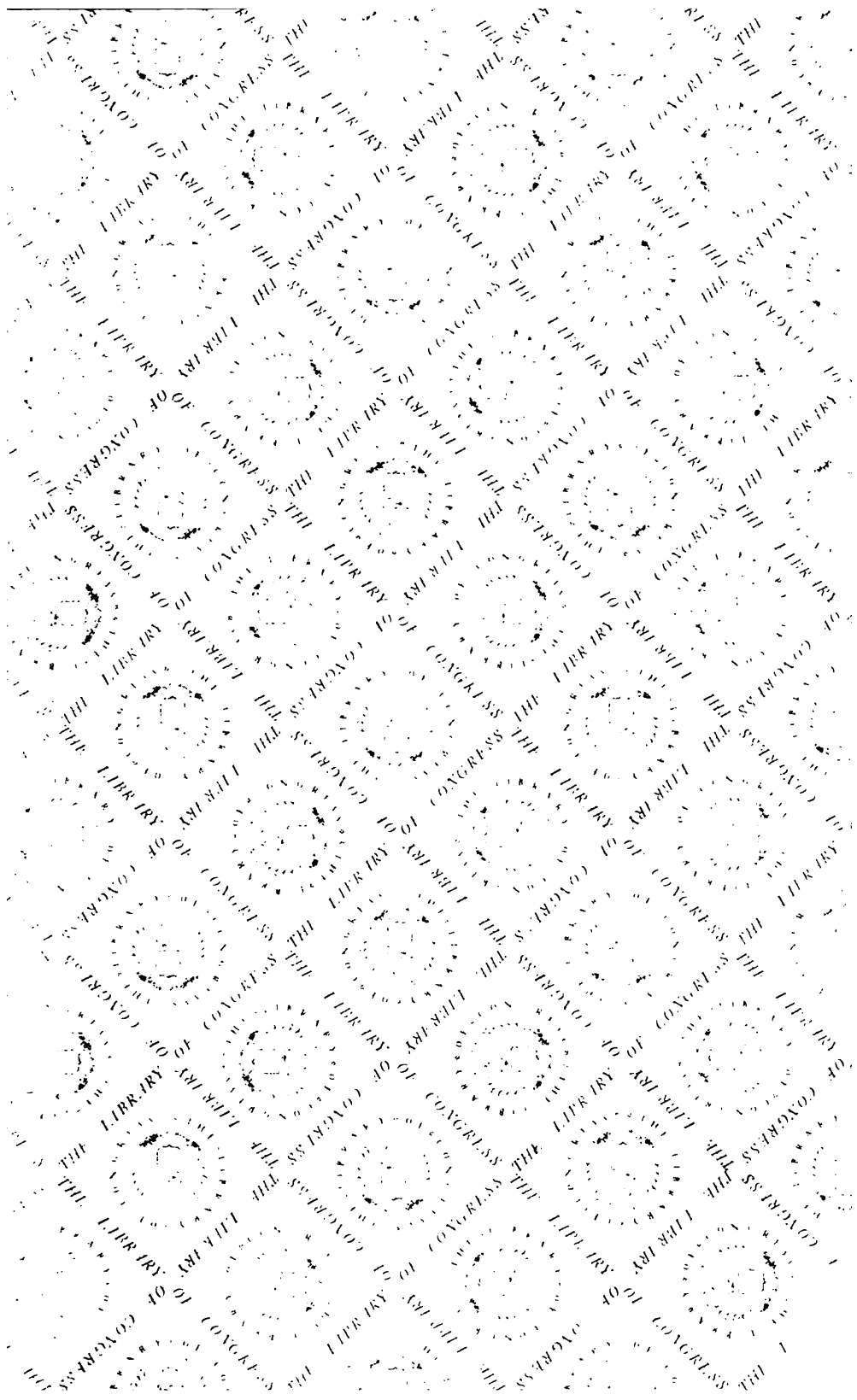
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HEARING

BEFORE THE

COMMITTEE ON THE JUDICIARY

OF THE

HOUSE OF REPRESENTATIVES

IN RELATION TO

INSURANCE.

MEMBERS OF COMMITTEE:

JOHN J. JENKINS, WISCONSIN, *Chairman*.
RICHARD WAYNE PARKER, NEW JERSEY.
DE ALVA S. ALEXANDER, NEW YORK.
CHARLES E. LITTLEFIELD, MAINE.
ROBERT M. NEVIN, OHIO.
HENRY W. PALMER, PENNSYLVANIA.
GEORGE A. PEABODY, MASSACHUSETTS.
JAMES S. GILLET, CALIFORNIA.
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JOHN A. STERLING, ILLINOIS.
BENJAMIN F. BIRDSALL, IOWA.
JOHN H. FOSTER, INDIANA.
DAVID A. DEARMOND, MISSOURI.
DAVID H. SMITH, KENTUCKY.
HENRY D. CLAYTON, ALABAMA.
ROBERT L. HENRY, TEXAS.
JOHN S. LITTLE, ARKANSAS.
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WASHINGTON:
GOVERNMENT PRINTING OFFICE.
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INSURANCE.

COMMITTEE ON THE JUDICIARY,
Monday, May 14, 1906.

The committee this day met, Hon. John J. Jenkins in the chair.

There were present also the following gentlemen: Clayton C. Hall, actuary, department of Maryland, representing the governor of Maryland; Thomas E. Drake, superintendent of insurance, Washington, D. C.; Edward E. Rhodes, mathematician, Mutual Benefit Association, Newark, N. J.; James H. McIntosh, counsel, New York Life Insurance Company; Arthur Hunter, actuary, New York Life Insurance Company and secretary Actuary Society; John K. Gore, actuary, Prudential Life Insurance Company, and also second vice-president of the Actuary Society; Archibald D. Welch, vice-president and actuary, Phoenix Mutual Life Insurance Company, of Hartford, Conn., also treasurer of the Actuary Society; James M. Craig, actuary, Metropolitan Life Insurance Company, New York; J. Thomas Moore, superintendent agencies, Provident Life Insurance and Trust Company; James Ashbrook, vice-president, the Provident Life Insurance and Trust Company; William A. Fricke, New York Life Insurance Company; Douglas H. Rose, actuary, Maryland Life Insurance Company, Baltimore, Md.; William O'Mealey, secretary, the Provident Relief Association, Washington, D. C.; W. W. Chiswell, secretary People's Mutual Benefit Insurance Company, of Washington, D. C.; S. W. Cockrell, manager Employees' Mutual Benefit Association, Washington, D. C.; Frederick L. Hoffman, Prudential Insurance Company, Newark, N. J.; John Brosnan, president the Provident Relief Association, Washington, D. C.; Charles A. Hartmann, Union Insurance Company; William Joseph Graham, actuary, Minneapolis, Minn.; George Kuhns, field manager Bankers' Life Association, Des Moines, Iowa; G. W. Cave, manager, American Home Life Insurance Company, Washington, D. C.; Alfred S. Niles, counsel and treasurer of the Baltimore Life Insurance Company; E. B. Hay, attorney, Royal Life Insurance Company, Washington, D. C.; Robert H. McNeill, attorney, representing Globe Life Insurance Association, Washington, D. C.; Dr. T. T. Evans, president the Washington Industrial Underwriters' Association, Washington, D. C.; J. S. Swormstedt, president the Equitable Industrial Life Insurance Company, Washington, D. C.; John B. Larnier, attorney for the National Union Insurance Company and the Home Plate Glass Insurance Company, Washington, D. C.; Allen C. Clark, secretary the Equitable Industrial Life Insurance Company, Washington, D. C.; William A. Bennett, general superintendent the Equitable Industrial Life Insurance Company, Washington, D. C.;

H. J. Messenger, actuary, the Travelers' Insurance Company, Hartford, Conn.; Benjamin F. Crouse, State insurance commissioner of Maryland, Baltimore, Md.; H. C. Lippincott, manager of agencies, Penn Mutual Life Insurance Company, Philadelphia, Pa.; Jesse J. Barker, actuary, the Penn Mutual Life Insurance Company, Philadelphia, Pa.; Frank Abial Flower, president the National Mutual Benefit Corporation, Washington, D. C.; L. Pierce Boteler, secretary the Mutual Fire Insurance Company of the District of Columbia; Frederick A. Savage, general agent (Baltimore) of the New England Mutual Life Insurance Company, of Boston, Mass.; L. G. Fouse, president the Fidelity Mutual Life Insurance Company of Philadelphia, Pa., and Thomas D. O'Brien, State insurance commissioner, St. Paul, Minn.

The CHAIRMAN. As I understand, Congressman Ames will address the committee first this morning, and I suppose this hearing will be printed and will be laid before each member of the committee. We expect that before long other gentlemen of the committee will be present.

STATEMENT OF HON. BUTLER AMES, A REPRESENTATIVE FROM THE STATE OF MASSACHUSETTS.

Mr. AMES. Mr. Chairman and gentlemen of the committee, without attempting at this time to go into a detailed explanation of the bill which you have before you for consideration, I wish to state in as few words as possible the history of its conception and the way it has grown, so that the committee will understand the proposed legislation before them. There is no doubt in my mind that there is not a member present outside of the committee who has not read the bill through and gone over it—I have no doubt, a number of times—so I can be pardoned, I believe, if the committee will permit, in avoiding details at present.

If you remember, early last winter or this winter the subject of the Federal control of insurance was agitated in a special message to Congress, and on the basis of that there were a large number of bills introduced by members of the House proposing to regulate insurance through the interstate-commerce clause of the Constitution. Your committee has acted upon those bills and determined that they were beyond the jurisdiction of the House.

In order to get around the inability of Congress to legislate under this clause of the Constitution, this scheme was devised—I think it was first proposed by a Mr. Wayne McVeagh, and it has been so changed in its form that he probably would not know his own baby. The scheme was more or less to draft a model code of insurance law, such as would protect the policy holder and protect a company doing a legitimate business; to establish, first, the law in the District of Columbia, where Congress, of course, is supreme, and then, with that as a standard, going out to the country and letting the moral sense of the community, public opinion, force by competition all companies to come within the provisions of such a code. On those lines a bill was drafted with the assistance of Mr. Frederick H. Nash, of Massachusetts, who was the assistant attorney-general of that State for some six years. He has just been taken into the firm of Choate, Hall & Stewart, one of the largest law firms in the State. I have

been given to understand that Mr. Nash would have been appointed Assistant Attorney-General of the United States if he would have accepted the position. Mr. Nash fought all the insurance battles for the State commission. So you see the best of advice was sought and utilized in the first drafting of the bill.

Mr. LITTLEFIELD. Was that upon the theory of Federal control?

Mr. AMES. No; it was for the purpose of creating a model code, and to do that the laws of all the States were gone through very carefully and the best features were taken out. We started with our Massachusetts Code as a standard or as a nucleus. I think every decision of the courts on insurance legislation was gone through and card indexed in connection with this tabulation. The best features of the several States were incorporated in the bill. Then there was a convention called of the insurance commissioners and governors and attorneys-general and insurance men all over the country at the instigation of some governor—I think Governor Johnson, of Minnesota, if I am not mistaken—which met in Chicago about the 1st of February. By that time the Armstrong report was expected. In fact, it had been promised before the date of the convention, as the convention desired to have the benefit of the report before it, but owing to the extensive matters considered in the report or in the investigations of the committee, that report was not on hand at the date of the convention. So, after listening to a number of insurance men and having listened to an explanation of this first draft of the bill, the convention adjourned without accomplishing or doing much except to appoint a subcommittee of 15, with Mr. O'Brien, the insurance commissioner of Minnesota, at its head. This subcommittee was to draft a model code of insurance law, and to submit its report on its draft to the full convention of commissioners when they again met, which, I believe, was to be this summer, in August or September. This subcommittee took the first draft that I have told you about, and employed a lawyer, and went to a great deal of labor and work. They took what they could get out of the Armstrong bill, and with some amendments that I have—

Mr. LITTLEFIELD (interrupting). That is the New York legislation?

Mr. AMES. Yes, sir. They met again about the 15th of February, and agreed, without any dissension, to the draft as you see it here before you. The draft is by no means perfect. I have a large number of amendments, none of them very radical, that I tried to get ready in time to distribute this morning to each member present, but I found that it was impossible to do so. I hope this afternoon to give every member a mimeograph copy of the proposed amendments, which, I think, meet all the objections that have been made and strengthen the bill in a number of respects.

To expedite the consideration of the measure, I think that, inasmuch as everyone present has gone over the bill carefully, and has been through the Armstrong bill carefully—

Mr. LITTLEFIELD (interrupting). You mean the gentlemen here interested in the bill?

Mr. AMES. Yes, sir; if anyone is here present who has not gone through this bill I wish that they would either rise or hold up their hand. I will take up the bill and go through it by sections. Of course if there were people here who did not know the purpose of the

bill or the object of the legislation they would want to have a general resumé of the whole bill rather than to take it up in sections.

Mr. LITTLEFIELD. I think you had better carefully explain the bill in detail.

Mr. AMES. Would not a full explanation of the bill by sections be more satisfactory to the committee?

Mr. LITTLEFIELD. The committee should have a good detailed knowledge of the proposed legislation.

Mr. AMES. The bill is not essentially different in many respects from the present New York law.

Mr. LITTLEFIELD. Have you included everything in the bill that is involved in the recent New York legislation?

Mr. AMES. Not everything; no. The wording is quite different, but the objects attained are practically the same, with a few exceptions, which I am going to enumerate.

The Armstrong or the New York code values its policies on what is known as the select and ultimate method, which may not be understood by the committee. I believe I could give a correct explanation of the method, but I should prefer to leave it to some one of the talent that I see here. The present bill before you uses the preliminary term method of valuing a policy. This was insisted upon by every one of the committee of fifteen. Massachusetts does not believe in the preliminary term and neither does New York, but without it the western commissioners believed that new companies would have insuperable odds to overcome in organization. While, perhaps, no one of the committee absolutely agreed upon every provision of the bill, still giving and taking all around made possible the approval of such a measure as you have before you.

I submitted the bill in this form and it was so printed, because that was the unanimous sentiment of the subcommittee of insurance commissioners. These amendments that I have to propose, some of which I do not believe in myself, although I am quite prepared to be convinced that they are correct, must not be taken as an expression of approval on my part. I am simply trying to perfect the bill. I performed my trust to the committee of fifteen by presenting the bill which you have before you.

Mr. LITTLEFIELD. The subcommittee of fifteen has agreed on the amendments you have here?

Mr. AMES. No, sir. I have not had an opportunity to talk over these amendments with all the members of the subcommittee.

Mr. LITTLEFIELD. The amendments have simply been drawn by you to meet the various objections presented from time to time?

Mr. AMES. We arrived at these amendments after consultation with some of the best actuaries of the country and some of the best insurance commissioners. The amendments are for the purpose of perfecting and strengthening the bill.

Mr. GILLET. How many amendments have you?

Mr. AMES. I have not counted them. Here they are [exhibiting amendments].

Mr. GILLET. They have not been submitted to the committee?

Mr. AMES. No, sir; I tried to get them into mimeograph form this morning, but we did not get them ready until yesterday afternoon, and it was impossible to get the work done, yesterday being Sunday.

Mr. Chairman, I see that the chairman of the subcommittee of fifteen of insurance commissioners is present, Mr. O'Brien, of Minnesota, and I think that he can very well explain to you the action and the feeling of the commissioners and their subcommittee on this legislation.

STATEMENT OF MR. THOMAS D. O'BRIEN, INSURANCE COMMISSIONER OF THE STATE OF MINNESOTA, ST. PAUL, MINN.

Mr. O'BRIEN. In response to Mr. Ames's suggestion, I will make a statement with reference to the committee of which I happen to be chairman. The primary object for which that committee was appointed was to secure as uniform legislation in the States as possible, and the committee is to hold meetings during the ensuing few months for the purpose of arriving at conclusions which are to be reported to the Insurance Commissioners' National Association, which meets in this city next September.

At the meeting in Chicago on March 20 at the solicitation of the Federal authorities the members of the committee who met considered this bill prepared by Mr. Ames and made a certain number of suggestions; and I think the whole as a draft was unanimously approved by the members present.

Mr. LITTLEFIELD. When was that?

Mr. O'BRIEN. On the 20th of March.

Mr. LITTLEFIELD. Was that before the committee here had passed on the question of Federal control?

Mr. O'BRIEN. My recollection is that our meeting took place afterwards. Many of us had rather strong conclusions upon the same subject before your committee announced that conclusion.

The committee, as I say, approved of the principles embodied in this bill. The details of the bill, we probably realized as much as anybody, could be largely amended in so far as the main portion of the bill is concerned. The majority of the sections, as Mr. Ames has said, follow the well-approved laws of different States, such as New York and Massachusetts. The new features of the bill follow, first, the bills adopted by the legislature of New York at its recent session. In the present draft of this bill the Armstrong bills are embodied as they were originally reported. Those Armstrong bills were very much amended. The present printed form of this bill as to the annual accounting, annual reports, standard forms of policies, and matters of that sort follows the Armstrong bills as they were originally reported to the legislature of New York. Subsequent to that report, and after our meeting in Chicago, the Armstrong committee took the bills, they were reported back from the legislature, and, with the aid of a large number of actuaries in this country the bills were gone over and amended in many particulars, and this bill, of course, should be amended so as to follow those amendments which were made in the Armstrong bills after the meeting of the committee in Chicago on the 20th of March.

In addition to following the bills on standard forms of policies and annual accounting this bill provides for a method of examination for the District of Columbia and the building up of a department in the District of Columbia, which is entirely new in this bill. To my mind

that is the most important section in this bill so far as legislation is concerned. The provisions are also new with regard to the method of electing directors.

Mr. LITTLEFIELD. Upon what general lines have you proceeded in the bill—upon the general lines of Federal control or upon the lines of municipal control?

Mr. O'BRIEN. You are referring to what section?

Mr. LITTLEFIELD. The whole construction of the bill.

Mr. O'BRIEN. The construction of the bill in the first place is made up of a large number of well-approved ordinary laws that appear upon the statutes of the State of Massachusetts, the State of New York, and other States, about which there is no dispute. On the question of annual accounting—

Mr. LITTLEFIELD (interrupting). Does your whole bill in its genesis contemplate the creation of a Federal control or a State control—that is, Congress acting as a State legislature in its municipal capacity in the District of Columbia, or acting in its Federal capacity as a Federal legislature?

Mr. O'BRIEN. The bill provides, in the first place, for complete control by Congress, acting, as you say, as a State, and in addition to that the bill provides that the department of the District of Columbia shall make examinations of companies upon the request of the insurance officer of any State, so that in that way there is cooperation brought about between the States and the Federal Government, and the machinery is afforded by which the Federal Department can become the great Department in the United States.

Mr. LITTLEFIELD. And in your conception it is the Federal Government acting as a municipal legislature all the while?

Mr. O'BRIEN. Absolutely.

Mr. LITTLEFIELD. It is your idea of the bill to have it enacted by Congress as applying to the District of Columbia?

Mr. O'BRIEN. Yes, sir.

Mr. LITTLEFIELD. As distinguished from undertaking to exercise Federal control?

Mr. O'BRIEN. Yes, sir.

Mr. HENRY. The department of the District of Columbia would come under section 5, which provides for the Department of Commerce and Labor to take charge of certain insurance matters.

Mr. GILLET. Are you looking toward Federal control of insurance companies?

Mr. O'BRIEN. Personally—

Mr. GILLET (interrupting). I mean the bill.

Mr. O'BRIEN. No; I do not think this bill does.

Mr. HENRY. The bill puts it under the Department of Commerce and Labor?

Mr. AMES. That is only the District of Columbia.

The CHAIRMAN (Mr. Parker). Mr. O'Brien, I understand you to say that the bill has two parts, one of which I understand to be the provisions which are ordinary and which follow the laws of a great many States with reference to the organization and management of District corporations, pure and simple, just exactly as if State corporations?

Mr. AMES. That is correct.

Mr. PARKER. The second one I understand to be the organization of an insurance bureau in the Department of Commerce and Labor, which shall have the power to examine insurance companies whether they be organized within or without the District of Columbia, but whose approval shall be necessary for their doing business within the District of Columbia?

Mr. O'BRIEN. Yes, sir.

Mr. PARKER. Has that second section been made applicable to all United States territory, or only to the District of Columbia? That is to say, has the approval of this insurance commissioner been made necessary to the doing of insurance business within the Territories, the insular possessions, and the District of Columbia of the United States?

Mr. O'BRIEN. I can not answer that question from memory. My recollection is that it is only for the District of Columbia.

Mr. AMES. To make this bill comply with the legal machinery necessary for that control over the insular possessions and the Territories would have made the bill enormous. For instance, the insurance commissioner of the District of Columbia could not very well act as the "Johnny on the spot" for the Hawaiian Islands.

Mr. PARKER. You call him the insurance commissioner of the District of Columbia, under the Department of Commerce and Labor?

Mr. AMES. Yes, sir.

Mr. PARKER. I thought the object of the bill was twofold; that one object was to regulate the incorporation and management of purely District corporations, and the second was to provide a United States examination of all insurance companies who should be allowed to do business within the United States territory and the laws by which their reserves and their surrender values should be approved?

Mr. O'BRIEN. The object of the men who framed the bill was to provide, in the first place, for an efficient department to regulate the business of insurance within the District of Columbia, and in addition to that, with the opportunities supposed to be afforded, to build a department in this District which would be a leading department in the United States; and we believed that this would not only be advantageous to the States themselves and for the citizens of the United States generally, but that it would be highly advantageous for the insurance companies. The demand for Federal supervision has been based upon the fact that the insurance companies have claimed to have been at the mercy of every State, and that there were constant examinations over and over again; that there was no central department from which examinations would be made, and each State commissioner acting entirely independently, harassing demands have been made upon the insurance companies, some of them foolish and vicious. Now, if there can be a legal and constitutional provision for a great central department in the District of Columbia, nearly every ground upon which Federal supervision has been demanded will be removed, every objection to State supervision will be removed, and the rights of the States to say what companies shall come into the States will be maintained fully and entirely. After giving the matter considerable thought, I have come to the deliberate conclusion—and I believe it to be true—that if the spirit of this bill with regard to the District of Columbia can be carried out the best fea-

tures of Federal supervision will be entirely secured, and none of the features incorporated which so many of us object to.

Now, when it comes to the details of this matter as to whether this should be under the Department of Commerce and Labor and matters of that sort, those matters I am not entirely familiar with, but the principle of it is that a great central department can be created here entirely under the law and entirely in accordance with the situation which will result in the greatest benefit to me and my department and the people at large in the United States. A company starts out to be admitted to ten or fifteen States at once. They determine to enlarge their territory. Each State commissioner insists upon an examination, and with a perfect right; he wants to know what it is, and very often the departments are controlled by the large companies, especially within the States. Let that company go to another State with not only the report of a commissioner from its State, but with a certificate from the insurance commissioner of the District of Columbia, and let him be as particular as he chooses, he will not dare to say that those two certificates were not sufficient to justify its admission.

Mr. LITTLEFIELD. What legal distinction can there be between a commissioner of the District of Columbia acting by virtue of State authority conferred by the United States and a commissioner of any other State?

Mr. O'BRIEN. There is no legal difference.

Mr. LITTLEFIELD. Where is the substantial difference; because you will get a better man?

Mr. O'BRIEN. You have these two examinations. The commissioner of the State in which the company is located acts as a check upon the District of Columbia and the District of Columbia acts as a check upon the commissioner of the State.

Mr. GILLET. Take a company doing business in Illinois which is incorporated in New York, and if it refuses to permit the commissioner of the District of Columbia to examine its books, can you get away from that?

Mr. O'BRIEN. No, sir. I do not think the United States Government has the right in that case to interfere.

Mr. LITTLEFIELD. Unless the company is organized in the District of Columbia or doing business in the District of Columbia we can not reach them, then?

Mr. O'BRIEN. It is exactly the same as in the State of Minnesota.

Mr. ALEXANDER. If a company should refuse to allow an examination by the commissioner of the District of Columbia it would need to advertise a little to get policies?

Mr. O'BRIEN. If a company refused to be examined, they would not do any business in Minnesota.

Mr. GILLET. Would you think that their refusal would put them out of business?

Mr. O'BRIEN. I think that any insurance company that would decline to have an examination made by a reputable supervising officer would be put out of business and ought to be.

Mr. GILLET. If this bill should become a law, it would compel every insurance company, no matter where incorporated, to be under the control of this commissioner?

Mr. O'BRIEN. Not at all.

Mr. GILLETT. And if they do not consent to an examination they would be forced out of business?

Mr. O'BRIEN. That is not it.

Mr. GILLETT. No reputable company would dare to refuse to permit the examination?

Mr. O'BRIEN. I do not think they would.

Mr. GILLETT. You provide in the bill that if the commissioner requests an examination to be made the examination shall be made if the company consents. You want to examine a company not in this District, but incorporated under the laws of New York and doing business in my State, and if they refuse to permit this commissioner to make the examination you say they might as well go out of business. Therefore you have them absolutely under your control if they do not comply with your demands?

Mr. O'BRIEN. Take the case of California. California is somewhat different from Minnesota. You probably have not as many insurance companies as we have in Minnesota. There are 507 insurance companies, all told, in Minnesota. It is practically impossible for me to know the details as to the great majority of those companies, and it is impossible for your Mr. Wolfe, who is one of the best commissioners in the United States, to know anything about the details of the majority of companies doing business in California. A large portion of the savings are invested in the policies of companies doing business in that State, but not organized under the laws of the State of California. Do you not believe that it would be an advantageous thing to the people of California if there was a department in the District of Columbia, so that when Mr. Wolfe saw in the annual reports that the assets were depleted, that the valuations on real estate were too large, he could demand from this department that they give him the information that he wanted?

Mr. GILLETT. That might be very true if we could not reach it directly by national act. Now, you are seeking to have it done indirectly?

Mr. O'BRIEN. It has been done a number of times.

Mr. LITTLEFIELD. This would add 1 to the 45 insurance commissioners, making 46. If Mr. Wolfe, out in California, has not time to find out what insurance companies are doing business in his State, how does Mr. Jones, the District commissioner, get more time or capacity to find it out, or is this commission for the District of Columbia to be simply the clearing house for all the insurance companies in the country?

Mr. O'BRIEN. I should hope to see it come to that.

Mr. LITTLEFIELD. Why can not Mr. Wolfe ascertain the facts just as well as Mr. Brown, in the District of Columbia, and if the company is located in the District of Columbia and is not located in California, why can not he do it just as well as Mr. Brown can here? Of course he may not have the time and the commissioner here may not have the time.

Mr. O'BRIEN. It is a question of time, and it is a question of the size of the department. It is a question of the amount of funds at the disposal of the department. The insurance companies have to pay all the expenses of the department in my State. It would cost me to do that an expenditure of \$50,000 a year.

Mr. ALEXANDER. In other words, you want the United States to pay for doing what the 45 States will not do?

Mr. O'BRIEN. I want the Federal Government to cooperate with the State governments. This demand would very seldom be made, but in my judgment it is advantageous to everybody.

Mr. HENRY. How much does this bill carry?

Mr. O'BRIEN. I do not know.

Mr. PARKER. You say the companies pay the States for this expense. Would they pay the District commissioner?

Mr. O'BRIEN. That would be a matter within the discretion of Congress. This bill provides that where the examination is made at the request of the District of Columbia the Government pays for it, and where the examination is made at the request of the company the company pays for it.

Mr. GILLET. Then, the Federal Government would be put in the position of making all the investigations for the various States of the Union?

Mr. O'BRIEN. Yes, sir.

Mr. GILLET. Then would not all the States turn it upon the back of the Federal Government in order to save the expense?

Mr. O'BRIEN. It would be a tolerably good thing if they did.

Mr. LITTLEFIELD. Would it not relieve the 45 commissioners of all responsibility?

Mr. O'BRIEN. It would relieve them from the demand.

Mr. BRANTLEY. I notice that the insurance commissioner is to be under the Department of Commerce and Labor and that the deposits of the insurance companies are to be made with the Treasurer of the United States. If we pass this bill and it chances to be such a bill as the insurance companies want would there be anything to keep all of them from incorporating in the District of Columbia under this law, and if they did incorporate in the District of Columbia under this law would not every insurance company be directly under the control and supervision of the Federal Government?

Mr. O'BRIEN. Yes, sir.

Mr. ALEXANDER. It is patent on the face of your statement, and you have been decidedly frank, that this would unload upon the General Government what the States now imperfectly propose doing. Now, supposing it does unload it upon the Government, can the Government do it better; and if so, how, than the different States?

Mr. O'BRIEN. In the first place, so far as unloading this upon the General Government is concerned, that is a condition that never would arise. It is only occasionally that these examinations are wanted, so that the idea that the department would be entirely at the beck and call of the States is not to be expected. The Government could do it better for the reason that, in the first place, the presumption is that the department would be a central department and would be very thoroughly equipped—that is to say, it would attract to itself the best class of men, men not only skilled, but men above reproach, and they could do the work better than the States. It is not an easy thing for the commissioner of any one State to determine what should be done in another State, and it is a perfectly fair presumption that the commissioners in the different States are inclined to favor the companies doing business within their own States. They

are bound to them by many ties. They have, perhaps, associated all their lives with the officers of those companies. They like them. The commissioner may have occupied more or less business relations with them, and to say that he has got to make the same drastic examination of the companies that ought to be made under those circumstances ought not to be expected, and it is not done. There is no necessity, and in some places it has been made and in other places it has not been made.

Mr. LITTLEFIELD. What States are they?

Mr. O'BRIEN. Of course you appreciate the fact that in any discussion of this sort I do not intend to call names. There are some Departments in the United States which stand out very conspicuously. There are other Departments that do not.

Mr. BIRDSALL. There is nothing in this bill that compels an insurance company to incorporate within the District of Columbia or to come here for examination?

Mr. O'BRIEN. No, sir.

Mr. BIRDSALL. It is simply to provide a Federal tribunal for the examination of all insurance companies and also to regulate those who do business within the District of Columbia, and these States, acting by comity, will accept the certificate of the examination made here for permission to do business within their respective States?

Mr. O'BRIEN. Yes, sir.

Mr. LITTLEFIELD. This paragraph on page 6 of the bill is really intended to catch them:

At the request of the commissioner of insurance or other officer having similar duties of any other State, and with the consent of the company, he shall make such examination of any company not authorized to do business in said District.

That is moral compulsion?

Mr. O'BRIEN. Not necessarily. It could be used as moral compulsion by any person so desiring.

Mr. LITTLEFIELD. Why is it put in the bill?

Mr. O'BRIEN. Sometimes a company desires to enlarge its field of operations and it makes simultaneous application to 10 or 15 States for admission before starting out to enlarge its field of operations. If that company submitted to an examination in the District of Columbia and then came to my department with not only the certificate of examination of its own State, but in addition the certificate of examination of the District of Columbia, it would be admitted without question, unless both those Departments were disreputable.

Mr. LITTLEFIELD. The purpose of this section is that if they do not voluntarily take the examination to morally compel them to take it?

Mr. O'BRIEN. Why?

Mr. LITTLEFIELD. Why do you want to have this language in the bill if you do not want to morally compel them to take the examination? It might be a good thing to do it, to compel an insurance company that is not doing business in the District of Columbia to come here and get a certificate of good health and character. Why do you provide here that when you request the commissioner of the District of Columbia to make that examination, with the consent of the company, he shall make it? It may be perfectly proper.

Mr. O'BRIEN. You and I will not get into any controversy. I think the reason you do not understand that is because you have not

the practical knowledge of this matter I have, and I have not very much. For instance, at the present moment an insurance company is applying for admission to the State of Minnesota, in which it seems an examination is necessary before I admit it. I am not able to make that examination; I have not the time; I have not the machinery to do it. My department is too small a department, and that is one of the objects of that provision. There you get with it the power to compel them to come here morally, just as you say; but if that was left out altogether there would still be a reason for that provision.

Mr. BIRDSALL. Is it likely that an insurance company would object upon moral grounds to a provision that is entirely for their benefit?

Mr. O'BRIEN. They are here and can speak for themselves.

Mr. AMES. There has been some criticism of the bill on the part of the members of the committee as to its length. A large part of it provides for the incorporation of domestic companies, and that has been made necessary by the absolute lack of proper provisions in the District Code.

Mr. LITTLEFIELD. Is there any legislation of any consequence in the District of Columbia on the question of insurance?

Mr. AMES. There is very little; and in order to give you all the information possible, I would like to have you listen to Mr. Drake, the commissioner of the District of Columbia, who will tell you about the code law as it stands to-day and the necessity of its enlargement.

STATEMENT OF MR. THOMAS E. DRAKE, INSURANCE COMMISSIONER, WASHINGTON, D. C.

Mr. DRAKE. Mr. Chairman and gentlemen of the committee, I am not a lawyer, neither am I the originator of this bill; but I have had, however, to some extent, a hand in its formation. I am here more to represent the interests of the District of Columbia in the matter of our present code as it exists. I had been of the opinion for some years prior to my appointment here as superintendent, and since, that the home of the nation should have the best insurance laws in existence. As it is, we have the poorest. We had at the outset practically nothing but a provision for a superintendent and one clerk. Congress has, however, since been liberal—that is, to some extent—since the department was created four years ago, and there has been added from time to time to that clerical force of one at the beginning, an examiner and a statistician, with a few temporary clerks.

It was my idea before being appointed superintendent of insurance of the District of Columbia, and I so stated to the commissioners during my first visit to them at their call from the Ohio department, where I was the deputy superintendent, that on account of the laws being so defective and ambiguous and conflicting in the District of Columbia I would make it my business as soon as possible after the department was organized and established to collect copies of all the statutes of the States and with efficient help compile a code that might be considered a model for the States to pattern after. After it had been enacted into law, last August, I began to see my way clear to do this, and I called upon all the commissioners to send me two copies of their statutes, so that this work might be commenced. I had not begun it, however, when Congressman Ames

called upon me with a draft of his bill, he having submitted it to the President, who requested him to resubmit it to me for investigation, examination, etc. I felt greatly relieved at this step, which was unbeknown to me, and also the gentleman who was the author of the bill, until then, knowing that it would relieve me of a great responsibility. The President requested me to examine it, and also that a call be made at Chicago for the purpose of convening State officials, consisting of the governors, the attorneys-general, and the commissioners, with a view, if possible, of formulating such a law which, if enacted in the District of Columbia, the States could, if they so desired, enact, so that in time we should have uniform laws. That is the principal object and motive of this bill.

As I understand it, the bill is strictly local and confined strictly to the District of Columbia, but with the proviso that if the States comply with certain conditions they can get information from this department, thus saving, as explained so clearly by Mr. O'Brien, the enormous expense to companies in connection with their establishing agencies. For instance, we have, including the Territories and the insular possessions, 52 insurance departments, and every time a company wants to enter a new State it must comply with the local laws, which, in the first place, means that the company must be subjected to an examination. If satisfactory it is accepted. Then it goes to another State and it is subjected to another examination, and so it continues. It was thought by the author of this bill that if a law could be so framed here in the District of Columbia that this duty might be imposed upon this department it would save all this expense. That is the prime motive in having it transferred from the District of Columbia to the Department of Commerce and Labor. This course would also entitle the Department to recognition by foreign Governments.

Mr. LITTLEFIELD. Is it not indirectly accomplishing what the committee held could not be done directly?

Mr. DRAKE. I do not so understand it. I understand this is purely a local measure.

Mr. LITTLEFIELD. Do you not make it Federal if you put it into a Federal department?

Mr. DRAKE. We have a number of that kind of cases in the District. There are appointments made direct by the President, officials of the District of Columbia.

Mr. LITTLEFIELD. The President can make appointments in the District?

Mr. DRAKE. I am not a lawyer; that is a legal question.

Mr. LITTLEFIELD. In substance, that was the idea that you wanted to see accomplished by the legislation?

Mr. DRAKE. Yes, sir; to save the enormous expense to companies in the establishing of their agencies by having to be subjected in every State they go into to an examination.

Mr. LITTLEFIELD. How many domestic companies are there in the District of Columbia?

Mr. DRAKE. We have, including fire, life, assessment, and fraternal insurance companies, about 40.

Mr. LITTLEFIELD. Are they of recent origin, or have they been in operation some time?

Mr. DRAKE. Some date back, I think, as far as 1818, and the most recent is within two months.

Mr. LITTLEFIELD. And up to within four years they had no District supervision?

Mr. DRAKE. No, sir. They simply collected taxes and license fees.

Mr. STERLING. What are some of the life companies?

Mr. DRAKE. We have only one regular company, that is the Equitable Industrial Life Insurance Company. We had the National Life Insurance Company of the United States, but that was afterwards reorganized under the laws of Illinois.

Mr. LITTLEFIELD. What does the Equitable do; the industrial insurance?

Mr. DRAKE. Industrial insurance and also what they call ordinary insurance.

Mr. LITTLEFIELD. Do they do industrial insurance on the lines of the Prudential Company?

Mr. DRAKE. Yes, sir.

Mr. BIRDSALL. What is the purpose in shutting out from the District of Columbia assessment insurance companies?

Mr. DRAKE. I do not know.

Mr. BIRDSALL. That is in section 56?

Mr. DRAKE. That is arranged, I believe, to be amended, as it should be. The Congress is responsible for the existence of 14 assessment companies.

Mr. BIRDSALL. Section 56 would absolutely prohibit their doing business in the District of Columbia?

Mr. DRAKE. That was an oversight. We have 14 assessment companies here that the District is responsible for, and they should be protected the same as the old-line legal-reserve companies.

Mr. BIRDSALL. What would be your suggestion along that line, or are there amendments prepared?

Mr. DRAKE. Yes, sir.

Mr. LITTLEFIELD. What is your view, Mr. Drake, as to the wisdom and propriety of that kind of insurance as compared with the old line; is it wise or unwise?

Mr. DRAKE. I would rather not express myself on that point. There are some very good ones in the District. In administering the law I do not permit my judgment to be warped by any personal view of the matter. My opinion is that we ought to take care of those in existence, but not permit any more to organize.

Mr. LITTLEFIELD. You do not approve of that kind of insurance?

Mr. DRAKE. No, sir; but I believe in taking care of those companies here that are in existence, and that the District of Columbia is responsible for.

Mr. ALEXANDER. You approve of this bill, at least so far as you have had a hand in formulating it?

Mr. DRAKE. Yes, sir.

Mr. ALEXANDER. You did have a hand in formulating the assessment company provision?

Mr. DRAKE. Yes, sir; as amended, and I suggested that at the outset as a feature of the bill, but it was not adopted.

Mr. LITTLEFIELD. Section 56 does not provide for any existing companies?

Mr. DRAKE. The bill as amended or proposed to be amended is very nearly equitable and right. It is copied largely after the New York law.

Mr. LITTLEFIELD. The amendment meets your approval and that of Brother Ames?

Mr. DRAKE. Yes, sir.

Mr. HENRY. You say this is purely a local measure and yet in another section you provide for deposits to be made with the Treasurer of the United States, if a foreign company, or if a company organized under the laws of some of the States, and those deposits are to inure to the policy holders?

Mr. DRAKE. That is the law.

Mr. HENRY. Whenever they come into the District of Columbia you require these deposits to be made in the Treasury of the United States and they shall be held for the benefit of the policy holders in the United States. Does that not make it a Federal organization?

Mr. DRAKE. No, sir.

Mr. HENRY. I will read section 79.

Mr. DRAKE. I am just told that there is no other officer with whom to deposit these funds except the United States Treasurer.

Mr. HENRY. Let us read section 79:

SEC. 79. That such foreign company, if incorporated or associated under the laws of any government or state other than the United States or one of the United States, shall not be admitted until, besides complying with the conditions of the preceding section, it has made a deposit with the Treasurer of the United States or with the financial officer of some State of the United States, of an amount not less than the capital required of like companies under this chapter. Such deposit must be in exclusive trust for the benefit and security of all the company's policy holders and creditors in the United States, and may be made in the securities in which domestic insurance companies are by this statute permitted to invest their capital, and such deposit shall be for all purposes of the insurance laws the capital of the company making it.

Mr. DRAKE. It is the equivalent of being deposited with the District of Columbia, because we have no other depository here.

Mr. CLAYTON. This makes the United States a trustee for the policy holders.

Mr. AMES. If a company is organized under the laws of a State and incorporated thereunder, it has to deposit its capital stock there.

Mr. CLAYTON. We understand that, but here is a proposition to make the Federal Government the trustee.

Mr. AMES. Suppose a company organized in England or Germany—

Mr. CLAYTON. We understand that, but here is a novel proposition to make the United States the trustee of certain people. That is a novel proposition.

Mr. AMES. Is not the District of Columbia under Federal control?

Mr. CLAYTON. Yes, sir; but we do not make the Treasurer of the United States the trustee of anybody, and never have done so. I submit to you if that is not a novel proposition.

Mr. DRAKE. I am informed on good authority that the Treasury holds a good many funds of this kind.

Mr. CLAYTON. Where does the Federal Government get the right to act as trustee of a foreign company? Where is the authority? Where is the grant of power to do this?

Mr. DRAKE. I would like to have Mr. Larner explain the situation.

Mr. LARNER. Mr. Chairman, this brings me back to the fact that there is some misunderstanding in reference to the functions of the United States Government and the District of Columbia, especially in reference to finances. The District of Columbia and the United States, although separate and distinct, one being a municipality and the other the United States, yet for all practicable purposes the District of Columbia and the United States are one and the same thing.

Mr. LITTLEFIELD. You mean that as a legal proposition?

Mr. LARNER. I am speaking of that as a legal proposition. As a practical fact, every dollar that is appropriated is appropriated out of the United States Treasury. All money collected in taxes by the District of Columbia goes into the Treasury of the United States and is appropriated by Congress from the Treasury of the United States. In fact, all the moneys that come from our various departments, the moneys that come from the collector's office of the District, all the money that comes from the recorder of deeds' office, all those moneys go into the Treasury of the United States; and so it would be in this particular case, the money that would come in from this department would go into the Treasury of the United States, just the same as it does in the case of contracts made with the District government where we have what we call retents, or moneys retained—10 per cent of the moneys that are collected.

Mr. CLAYTON. I understand that on local matters appertaining to the District the power of Congress is undoubted and ample for all purposes. We can legislate. In fact, we are the legislature for the District of Columbia, and on all matters have full and ample power; but I understand your proposition is to extend the matter of the trusteeship of the United States to foreign companies and companies other than those that are merely local in their character?

Mr. LARNER. It makes no difference; the money would be held by the District. It makes the proposition practically the same thing.

Mr. STERLING. That would put it in the hands of the Government of the United States?

Mr. LARNER. It can make no difference. It goes to the Treasurer of the United States and he holds it. It may be in the name of the District, but still it would be in the Treasury of the United States.

Mr. CLAYTON. Congress has power to regulate commerce between the States and with foreign nations. This committee decided insurance not to be commerce. Where is our power to deal with foreign companies and insurance companies from the States?

Mr. LARNER. That is a question that I have not given any consideration.

Mr. ALEXANDER. Would not the District of Columbia occupy the position of a State and have the same right to deal with foreign insurance companies that the State of New York has, for illustration?

Mr. LARNER. It would seem so to me.

Mr. ALEXANDER. Is there any doubt about it?

Mr. LARNER. I do not think there can be any doubt about it.

Mr. LITTLEFIELD. Does anybody contend that they would not?

Mr. LARNER. I do not know.

Mr. LITTLEFIELD. Who is the disbursing officer for the expenditures of the District of Columbia?

Mr. LARNER. They are disbursed through the Treasury of the United States by checks drawn by an officer of the District of Columbia, a disbursing officer. He draws the checks on the Treasury of the United States.

Mr. LITTLEFIELD. The disbursing officer of the District of Columbia draws the checks on the Treasury of the United States?

Mr. LARNER. He has an account in the Treasury of the United States and draws checks on that account, and they are paid by the Treasury.

Mr. LITTLEFIELD. What is his designation?

Mr. LARNER. Disbursing officer.

Mr. LITTLEFIELD. And he disburses all the moneys used in the District out of the Treasury of the United States?

Mr. LARNER. Yes, sir.

Mr. LITTLEFIELD. And his accounts are audited by whom?

Mr. LARNER. The Comptroller.

Mr. LITTLEFIELD. The Comptroller of the Treasury?

Mr. LARNER. Yes, sir.

Mr. LITTLEFIELD. Like all other expenditures?

Mr. LARNER. Yes, sir; exactly.

Mr. HENRY. My proposition was this, that under section 79 foreign companies are required to make deposits in the Treasury of the United States to the exclusion of their going to a State of the Union, if they choose to do so, and making the deposit there; in other words, they would come to the District and make this deposit first?

Mr. DRAKE. Yes, sir.

Mr. HENRY. Would that not bring them under Federal control? Do you think they can do that?

Mr. DRAKE. Congress now has the right to do that.

Mr. ALEXANDER. "Foreign companies." That refers to companies foreign to the United States, not foreign simply to the District of Columbia?

Mr. AMES. A "foreign" company means a company organized under the laws of any State outside the District, and a "domestic" company is a company organized under the laws of Congress in the District.

Mr. PARKER. Would you be kind enough to read your amendment to the definition of "foreign," on page 1?

Mr. AMES. I have no amendment to that definition on page 1. I have an amendment on page 1, but it does not affect that definition particularly.

Mr. ALEXANDER. Did you base your answer upon the language in lines 11 and 12 of section 1, "'Foreign,' when used without limitation, includes all those formed by authority of any state or government other than the United States."

Mr. DRAKE. That could be simplified.

Mr. AMES. This is the phraseology of all the States, the large majority of States in the United States to-day. This definition is taken from the Massachusetts law. I interpret "foreign" as explained here. If you are thinking of or designating a company of a foreign country, then at once it becomes foreign with a limitation, and it is a company of a "foreign country," or a foreign company organized in a country other than the United States. I do not know that that answers your question.

Mr. PARKER. If you read this as follows: "'Foreign,' when used without limitation, includes all those formed by authority of any state or government other than the United States," that means that any State insurance company is foreign. If you read it as Mr. Alexander did, it means only foreign to the United States.

Mr. HENRY. Under the insurance laws as they now exist an alien or foreign insurance company must make a deposit in each one of the 45 States of the Union if it undertakes to do business there?

Mr. AMES. No, sir.

Mr. HENRY. It can not do business in Arkansas until it deposits there?

Mr. AMES. That may be so.

Mr. HENRY. They must deposit in every State?

Mr. AMES. I do not think they deposit in every State.

Mr. HENRY. They deposit in every State of the Union before they do business?

Mr. AMES. No, sir.

Mr. HENRY. Well, they have to make a deposit in some States of the Union—it is immaterial whether it is all or not—but under this law these alien insurance companies can make a deposit with the Treasurer of the United States and then it is not necessary under the provision of this act for it to deposit in any State of the Union?

Mr. AMES. No, sir.

Mr. HENRY. Would not that oust the State of the jurisdiction to require deposits?

Mr. DRAKE. That is my understanding.

Mr. AMES. I would like to have Mr. O'Brien state what the ruling is in his State with reference to an alien company making a deposit in the State before it is allowed to do business.

Mr. O'BRIEN. The law in Minnesota is exactly what this law is intended to be—that is, a company that is foreign to the United States can not do business in Minnesota until it has made a deposit either in Minnesota or in one of the States. This bill is intended to follow the ordinary State laws upon that point. If the definition section is not right, it can be made right. In a broad sense, a foreign company is any company that is organized under the laws of a State other than that which is being considered. The Minnesota companies are foreign to the District of Columbia. There is another class of foreign companies that are foreign to the United States. The majority of the States, I think, require no deposit by a foreign insurance company to do business and no deposit to do business in their States except the companies organized in the States, but they do require that foreign companies, that companies of foreign countries, foreign to the United States, before doing business in that particular State shall make a deposit in some State of the Union. That is what this bill provides for the District.

Mr. LITTLEFIELD. To have the assets in this country where they can be reached?

Mr. O'BRIEN. Yes, sir. No company foreign to the United States can operate until it has brought its assets within the requirements of the United States. If you will examine this bill in detail, you will find that there is not a single State right or a single privilege

that any State has that is interefered with or can be taken away by this bill. The beauty of this bill, if there is any beauty, is that it leaves every State in absolute control of the situation with regard to its own affairs.

Mr. BRANTLEY. Under the present law your State can require a deposit from a foreign country, or it can permit the foreign country to do business if it has a deposit in another State?

Mr. O'BRIEN. Yes, sir.

Mr. BRANTLEY. And you can require a deposit in your State, notwithstanding there is a deposit in another State? If you pass this law you can not do that?

Mr. O'BRIEN. Yes, sir. I believe the Federal Government has not the power to say what regulations the State of Minnesota shall make with regard to their insurance companies, and unless the Supreme Court of the United States is reversed, an insurance contract is not interstate commerce, and you can not take my rights away from me as insurance commissioner unless you reverse the Supreme Court, and this bill does not purport to do anything of that sort, but it purports to legislate for the District of Columbia and to put the large department which it is proposed to organize at my disposal if I see fit to avail myself of it.

Mr. STERLING. It says, in line 11, section 79, that the company "shall not be admitted until"—that is, admitted to do business in the District of Columbia?

Mr. O'BRIEN. Yes, sir; absolutely. We had that very question before the committee of insurance commissioners on March 20. One of the commissioners, realizing the difficulty of examining a foreign insurance company and realizing the facilities that the United States Government would have through its consular department, advocated the drafting of this section in such a way as to exclude a company from the United States unless it complied with the law, and personally I expressed the opinion that the Federal Government had not the power to do that; that if the Federal Government can not regulate insurance between the States it can not regulate it between the United States and foreign countries. If it is not interstate commerce you can not regulate it so as to exclude my rights.

Mr. LITTLEFIELD. If it is not interstate commerce, it is not foreign commerce?

Mr. O'BRIEN. No, sir; and if it is not commerce that ends it.

Mr. DRAKE. Just a word more, Mr. Chairman. I would suggest that in order to save this confusion—the terms do not seem to be understood—you should adopt the terms that are now used by the District of Columbia insurance department, which designates the companies that are chartered by special act of Congress and those under general laws as local companies, and designates those chartered in the States as domestic companies, and those organized outside the territorial limits of the United States as foreign. There can be no mistake about it if those terms are used.

Mr. PARKER. Who comes next, Mr. Ames?

Mr. AMES. I would like to have Mr. Crouse, the commissioner of Maryland, who is also one of the commissioners on the subcommittee on insurance, address the committee.

**STATEMENT OF MR. BENJAMIN F. CROUSE, STATE COMMISSIONER
OF INSURANCE OF MARYLAND, OF BALTIMORE, MD.**

Mr. ALEXANDER. Give to the reporter your full name and address and business.

Mr. CROUSE. My name is Benjamin F. Crouse, commissioner of insurance of Maryland; official residence, Baltimore. My home is Westminster, in Carroll County, Md.

Mr. PARKER. Proceed, sir.

Mr. CROUSE. I think there has been some misapprehension, judging from the questions that have been asked by the committee of those who preceded me in appearing before the committee. It is my understanding of this bill, after a very careful examination of it, and after having heard the arguments concerning it at Chicago, and inquiring into it myself, that this bill is for the jurisdiction of the District of Columbia, to be enacted by the only legislative power that there is to enact legislation for the District of Columbia; and therefore when we are talking about a bill to be enacted by Congress we are apt to confuse terms and get the idea that that bill is necessarily Federal, simply because the Federal Congress is the legislative power that enacts legislation for the municipal government of the District of Columbia.

Now, I think in enacting this bill, if the Congress should do it, it would simply apply to the District of Columbia as a jurisdiction in which the insurance business is transacted; that the bill of itself has no effect whatever upon any State in the Union unless the commissioner of that State or the superintendent of insurance of that State desires to use such provisions of the bill as are adapted to the conditions of his own State, just exactly as he now uses the provisions of the laws of those States of the Union which have laws on the subject of insurance whenever he so desires, as a mere matter of comity between the States. For instance, suppose a company coming into the State of Maryland from the State of Minnesota—the State of my friend O'Brien—I have a perfect right as the commissioner of the State of Maryland to examine that company before I admit it into the State of Maryland; but instead of that I can call upon the commissioner of the State of Minnesota and ask him for an examination, and that can be sufficient and is sufficient, if I am satisfied with it, to admit the company from Minnesota into the State of Maryland.

Now, suppose likewise there was a company here in the District of Columbia—whether it is a foreign company or a domestic company or a local company, as my friend Drake chooses to distinguish—if it were doing business here and was not admitted to the State of Maryland, but offered to do business there, I would call upon Mr. Drake, the commissioner of the District of Columbia, or I need not call on him, just as I choose. I could examine into the affairs of the company myself if I wanted, or if I wanted I could call upon Mr. Drake to examine that company, and it would be sufficient, so far as the deposits are concerned, if the deposits are made here and held here. I do not care whether you use the technical term “in trust” or not. In case the company failed, so that it could not be reached by suit, this money would be on deposit here for the benefit of the various States of the Union, and they could use that sum

to meet such losses as the company would have in those various States.

The point about it is this: That this bill is not meant to interfere with the legislation of the States. The expression from this committee, as I understand it, is that the United States has no power of Federal regulation as a Government over the insurance business, because insurance is not commerce. But this particular law would stand exactly in the same category as the law of any other State would stand with respect to transactions in another State. We are not bound at all.

I want to say this to you: I think the very first question that was raised by Mr. Littlefield and by other gentlemen upon the committee was as to what was meant by the section—I think it was section 5, or 6 possibly, of this bill—in respect to the examination of other companies. It simply meant this, as I understood it: The States have no means of examining foreign companies. For instance, suppose a company desired to come into Maryland from England—

Mr. ALEXANDER. You are speaking of foreign companies as outside the Government of the United States?

Mr. CROUSE. Yes; as outside the jurisdiction of the United States. I do not think that any other construction was considered, so far as the convention was concerned. While "foreign" does mean that which is not in the District of Columbia, no matter where it may be in the country, I do not think it is clear in that section, if the word "foreign" is used in that particular sense in that section.

Suppose a company desired to come in from a foreign country outside the lines of the United States, to do business in the State of Maryland. I might say: "I must have an examination of that company." I have no means of examination, as you say, because I have no agents in foreign countries to examine into this. But the United States is so situated that it does have a consular service in the various countries on the face of the globe, and therefore it can call upon one of its own officials. It is so fixed and constituted that it can do that. A State could not do that.

Now, the idea was that if you could get the States to agree, by this code of uniform legislation, that when a foreign country should come into this country to do business we as States—not the United States Government—should say: "You should be admitted to the District of Columbia first," but that I, as commissioner of Maryland, should say: "You must be examined by the District of Columbia before you can be allowed to enter the State of Maryland." I would state that, however, under the law of the State of Maryland, and not under the law of the United States at all.

Mr. ALEXANDER. May I ask you a question simply for my own information? How do you examine or get at the standing of a foreign company—the London, Liverpool and Globe Fire Insurance Company, for instance?

Mr. CROUSE. I must confess I do not know; and there is no means or power or authority to do it given to the States whatever.

Mr. STERLING. Why not?

Mr. CROUSE. We could send agents, unquestionably, to England to examine into the affairs of that company.

Mr. GILLET. Could you not exact from the London-Liverpool Company that they should deposit in Maryland an amount sufficient to protect the people?

Mr. CROUSE. Certainly; we could do that.

Mr. ALEXANDER. Do you do that?

Mr. CROUSE. No, sir. We do not do that. The point of deposit, I would say, is that where the amount required by the various States is deposited in some place within the United States. We are always satisfied that that is sufficient.

Mr. GILLETT. When they have made a sufficient deposit that satisfies you?

Mr. CROUSE. No; that is not necessarily the case. We have a perfect right, notwithstanding their deposit, and in many instances we do that very thing—examine into the affairs of a company to ascertain its condition, or ascertain it from some State where they are transacting business and where an examination has been made. We call upon that State for their certificate of examination made of the company.

Mr. STERLING. Don't you want to know with reference to the expenditures, or salaries, or things of that kind?

Mr. CROUSE. Certainly; we could examine into all the affairs of it.

Mr. STERLING. Do I understand you to say under this section 5 or 6, that the State commissioner—

Mr. CROUSE. Page 6—

At the request of the commissioner of insurance, or other officer having similar duties, of any other State, and with the consent of the company, he shall make such examination of any company not authorized to do business in said District.

Mr. STERLING. Do you think that just applies to foreign countries, and foreign with respect to the United States?

Mr. CROUSE. So far as I am concerned, that is my understanding.

Mr. STERLING. Would you not say that it would be as well if that section does not include the thought of the companies organized in other States, as, for example, Massachusetts or New York?

Mr. CROUSE. The State of Maryland could do that if it desired to do it. But I do not mean that this particular law shall compel the State of Maryland to be satisfied with the District of Columbia examination, or the examination of any other State, unless I want to be satisfied. That is a matter entirely with the particular State where the company is applying to be admitted. I do not understand this law is to take away any power or authority or right whatever of any particular State, as, for instance, my own State of Maryland.

Mr. GILLETT. It would have this effect, that if the State were satisfied, and the commissioner and clerks working with him, they would request the examination made of the company in some other State, and thus save labor and expense?

Mr. CROUSE. That is all.

Mr. GILLETT. Is it not the intention, then, to have under Federal control the supervision of all these companies for the purpose of ascertaining just how they stand, so as to inform the various States, and take the supervision and control away from the States?

Mr. CROUSE. The term you use is apt to be confused again. It would not be Federal control or supervision in the sense that the Federal Government would do it. No. We simply thought we would designate some particular place, as the District of Columbia, just as we might designate the State of New York or the State of Minnesota or the State of Maryland, for convenience sake.

Mr. HENRY. Why did you not take it to some State legislature?

Mr. CROUSE. I did not prepare the bill.

Mr. HENRY. If you did not want to have Federal control, it seems to me some State legislature could set the example just as well.

Mr. CROUSE. We are trying to arrive at a uniform code of legislation for adoption by the States. This bill does not apply to any State in the Union. We are now preparing a code of laws looking to uniform legislation to be adopted by the various States of the Union, by which we can possibly conform to the provisions of this bill; laws just like this bill, although this bill is for the District of Columbia alone; so our laws would be for the various States alone. For instance, the law adopted by Maryland could not bind my friend O'Brien, of Minnesota, and a law passed by the State of Minnesota could not bind me as commissioner of insurance of the State of Maryland. But if Mr. O'Brien and myself, as commissioners of those States, agree under the rule of comity between the States that we will be satisfied with the examination, for instance, I in his State and he in my State, that is a matter that we can do now under the law. That is all. But that is not because Mr. O'Brien's law covers the State of Maryland, but it is because I choose to apply and use in Maryland the regulations which Mr. O'Brien adopts under the law of his State.

Mr. CLAYTON. Does this bill go no further than that?

Mr. CROUSE. It goes no further.

Mr. CLAYTON. What is the use of having this enacted, if it confers no further power?

Mr. CROUSE. If we had a uniform law, maybe it would not be in it.

Mr. GILLET. You say you want a uniform law?

Mr. CROUSE. Yes.

Mr. GILLET. Do you suppose you could get the State legislature to pass this measure:

At the request of the commissioner of insurance, or other officer having similar duties, of any other State, and with the consent of the company, he shall make such examination of any company not authorized to do business in said District.

Do you suppose New York, for example, would consent to legislation of that kind?

Mr. CROUSE. I doubt it very much.

Mr. GILLET. Do you think the State of New York would be content to make the examinations at its own expense?

Mr. CROUSE. I doubt it.

Mr. GILLET. Then your idea is to lay the expense on the Government of the United States?

Mr. CROUSE. No. If the company applies to Maryland to be admitted and I say, "I want to examine into your affairs before you can be admitted," that expense is at the cost of the company.

Mr. GILLET. You are requiring a large number of officeholders here, and that expense must come upon somebody.

Mr. CROUSE. Yes; that is true.

Mr. FRICKE. Do you think the laws that have been passed in the State legislatures are correct?

Mr. CROUSE. I do not say I would like them, but I would not agree with all of them.

Mr. FRICKE. Would they be sufficient as an example to adopt uniform laws?

Mr. CROUSE. A number of them are very good bills, and possibly may remedy some of the evils which have been criticised and talked about a good deal within the last six or eight months.

Mr. FRICKE. Would you be willing to have them adopted by your State?

Mr. CROUSE. No, sir.

Mr. FRICKE. If this were enacted into law either some of the States would be compelled to change their laws or the companies of New York would be compelled to withdraw from the District of Columbia?

Mr. CROUSE. I think you are right about that, Doctor.

Mr. GILLETT. That would be Federal supervision, would it not?

Mr. CROUSE. No, sir. I do not think there is any idea of Federal regulation or supervision.

Mr. CLAYTON. If there is no Federal supervision or control of insurance companies in this bill what do you want with it? I want to know the object of it.

Mr. CROUSE. Not to give you a short answer——

Mr. CLAYTON. You can make the answer as short or as long as you please.

Mr. CROUSE. I only want to say I want to be extremely polite and answer as far as I possibly can. I can say to you in answer, I do not know that I want it at all. I am only talking about the bill, or the provisions of the bill. The only bill I want, possibly, when it comes, is such a bill as I may approve of personally before the legislature of my own State. I hope and trust that we shall be able to bring about a uniform system of legislation in the various States of the Union, because if we have a good bill in Maryland I see no reason why it could not be a good bill in the State of Alabama or Minnesota or some other State; but so far as the National Government's control of insurance goes I am opposed to it. I see no reason for it, and I would not stand here for a moment except in opposition to it.

Mr. BRANTLEY. Are you here advocating its passage?

Mr. CROUSE. I am here in this position toward the bill: This is the first bill that was drawn looking to the idea of uniform legislation. We had this under consideration at the convention at Chicago, and we tried to get it to meet the approbation of the committee there; without changing the spirit of the law, we added some words and changed some sections, but we did not undertake to interfere with the philosophy or science or spirit of the particular bill. This is the first bill, I will say to you, that has come up to us in codified form, and it comes as near being correct as any bill that we know of at the present time.

Mr. BIRDSALL. Then, I understand you favor its passage?

Mr. CROUSE. Certainly.

Mr. BIRDSALL. But you are indifferent as to whether it passes or not?

Mr. CROUSE. I say I have no more interest in it in the District of Columbia than if it were in the New York legislature or in the legislature of some other State. The idea is to get what this bill looks to—namely, uniform legislation in the States.

Mr. CLAYTON. If this bill should be enacted into law, what specific benefit would you, as commissioner of the State of Maryland, or the policy holders there, derive from it?

Mr. CROUSE. None whatever, sir, unless we choose to use the provisions of it, just as I have mentioned I might do a moment ago. It would not necessarily apply to my State at all.

Mr. CLAYTON. What provisions would you use?

Mr. CROUSE. Suppose a company was doing business in the District of Columbia which was not doing business in the State of Maryland, and it applied there to do business; I could call upon Mr. Drake here for information.

Mr. FRICKE. Can you not do that now?

Mr. CROUSE. Certainly. Therefore that provision is not new. He can hand me a certificate of examination, and that will be sufficient for me.

Mr. CLAYTON. What additional power would this bill confer on you that you have not got already?

Mr. CROUSE. Nothing.

Mr. CLAYTON. Why, then, do you want to enact this provision?

Mr. CROUSE. Because they say the laws of the District of Columbia are deficient as a local measure.

Mr. CLAYTON. Then it does not benefit you directly or indirectly?

Mr. CROUSE. That is my conception of it.

Mr. ALEXANDER. You were asked a moment ago by a gentleman whose name I do not know—

Mr. CROUSE. Doctor Fricke, ex-superintendent of the State of Wisconsin—

Mr. ALEXANDER. Whether, if this bill were made a law governing the District of Columbia, some of the New York insurance companies would not have to go out of business in this District.

Mr. FRICKE. All the New York life insurance companies would be compelled to withdraw.

Mr. ALEXANDER. Yes. I would like to know why.

Mr. CLAYTON. I do not know but that it would be a good idea to put the three "grafting" companies out. I would favor it if I thought it would do that.

Mr. CROUSE. Doctor Fricke referred to a rule for the valuation of policies. What do you refer to, Doctor?

Mr. FRICKE. I do not want to break in on you now.

Mr. ALEXANDER. What did Doctor Fricke say?

Mr. CROUSE. He said he did not want to break in. If there is a provision in the New York legislation or in this particular bill which differs as to the regulation of companies, and companies in New York State, say, do not want to comply with the provisions of this bill, but prefer the provisions of the law of that State, they could not do business in the District of Columbia; that is all.

Mr. PARKER. Is there any provision in this bill with reference to foreign or domestic companies? I have been asking Doctor Crouse—

Mr. CROUSE. Do not accuse me of being a doctor. I happen to be a lawyer. [Laughter.]

Mr. PARKER. I was going to ask whether there was any particular provision in this bill, after the amendments you have suggested, that would interfere with the ordinary line of life insurance companies in the State of New York doing business in the District of Columbia?

Mr. CROUSE. I should like very much to give you an answer to that if I were entirely conversant with the recent bills that have passed

the New York legislature, but I have not seen the bills as they were amended and passed. I saw the original draft of the bills, but I am not thoroughly versed at all in the provisions that have passed with the various amendments to them.

Mr. PARKER. Have not the recent amendments very much changed the provisions which provide for anything except purely District corporations?

Mr. CROUSE. Yes.

Mr. PARKER. Is it the purpose of leaving the field free for any corporations except for purposes of examination?

Mr. CROUSE. Yes; except as these things have to be done, just as Mr. O'Brien says. It would be useless, if the company were coming from the District of Columbia into Maryland, if they had been examined by Mr. Drake—it seems to me it would be useless trouble and expense for me to say as commissioner of Maryland, "I want to examine that company," because in five minutes I can telegraph to Mr. Drake and find out whether that company is properly admitted into the District of Columbia, and I can admit it to the State of Maryland. That disposes of the whole thing, and therefore on assurance of that kind it might be of benefit to me to use it.

That is all. I am not compelled to do it, you understand. It is a mere matter of convenience.

Mr. BIRDSALL. Let me call your attention to section 2:

That all insurance companies now or hereafter incorporated by authority of any general or special law of Congress shall be subject to the provisions of this act, and to such laws as may be hereafter passed affecting or altering their corporate rights or duties or dissolving them. All foreign insurance companies, as a condition of transacting any business of insurance within the District of Columbia, shall be subject to the provisions of this act.

"All foreign insurance companies," I take it, means—

Mr. CROUSE. Outside the District of Columbia.

Mr. BIRDSALL. Shall be subject to the provisions of this act?

Mr. CROUSE. Yes, sir. For instance, let me show you what that means. Up to within a short time our own State had no provision covering the particular time when companies should account and report and distribute dividends. The last legislature adopted a law stating that no companies should do business in Maryland issuing policies participating in the profits or surplus which should postpone the accounting and apportionment of its dividends and surplus for a period longer than five years. Suppose there was no such provision in this law here—

Mr. BIRDSALL. Supposing there were something of another character which conflicted with that?

Mr. PARKER. I desire to ascertain the pleasure of the committee with reference to the question of recess—whether it is better to take a recess now, from 12 o'clock until 2, or wait until 1 o'clock and then adjourn until 2. I make this suggestion because of the fact that we may be called upon shortly to vote in the House.

Mr. AMES. Mr. Chairman, in connection with this I would like to state that these amendments that I have been unable to reproduce for you can not be had until 3 o'clock this afternoon, and I am very much interested in them, because they answer these questions that are being brought up limiting these provisions to local companies. It might be well to take our recess until I can present these amendments.

Mr. PARKER. Until what time?

Mr. AMES. Until 3 o'clock.

Mr. PARKER. I am not desirous of holding meetings that are not well attended by members of the committee. It is fair to you gentlemen, who are men of ability, actuaries of companies all over the United States, that we should give you a full hearing. I wanted to get the opinion of the committee as to whether we should go on before Mr. Ames brings in his special amendments, which the members and myself are ready to hear, or whether we shall adjourn now.

Mr. ALEXANDER. I suggest that we hold until half past 12 and give Doctor Fricke time to answer that question, and then adjourn until 3 o'clock this afternoon.

Mr. PARKER. It is moved, gentlemen, that Mr. Fricke be asked to reply to suggestions already made until half past 12, and that at that time we adjourn until 3 o'clock.

Mr. STERLING. Why not 2 o'clock?

Mr. PARKER. The amendments which Mr. Ames suggests would cut out many questions that otherwise might be propounded to Doctor Fricke.

Mr. AMES. They will answer many questions.

Mr. PARKER. It is moved and seconded that Doctor Fricke proceed until half past 12 and that we then adjourn until 3 o'clock—or is it 2 o'clock, Mr. Ames?

Mr. AMES. I should prefer 3 o'clock.

Mr. PARKER. Very well. The motion is carried.

Mr. AMES. Let me introduce Doctor Fricke.

Mr. CROUSE. I am very much obliged to the committee.

STATEMENT OF MR. WILLIAM A. FRICKE, OF NEW YORK CITY.

Mr. FRICKE. Gentlemen of the committee, I said that if this code were enacted into law as it is presented in this printed bill, No. 18804, the New York life insurance companies would be compelled to withdraw from the District of Columbia until such time as they could secure amendments to the New York insurance laws.

The provision in this code as to the election of directors in mutual life insurance companies is radically a different plan from that enacted in the New York statute. The law provided in this code for standard-policy forms would subject the New York companies, if they attempted to comply with it, to prosecution under the antidiscrimination law of the State of New York, since the standard-policy law in New York fixes the basis of values on lapses or surrenders after three years, and this bill fixes it at two years, so that immediately the charge could be brought against the New York companies that they are discriminating against New York policy holders.

It would be necessary to amend this law in many other particulars to enable outside companies to remain here. I drafted a review of this bill, which was published in one of the insurance journals, and at the request of the chairman I have mailed a copy of the review to each of you gentlemen, so that I will now not discuss any point raised in that review. However, I will hand to the stenographer a copy of that review.

There are serious objections to the enactment of this law, and I trust that my friends the insurance commissioners will not look

upon what I say as criticism of any particular individual who now holds the position of insurance commissioner. I held it once myself, and the qualification that is defined in this law for an insurance commissioner is not that he should have a knowledge of the business, but that he shall not be a stockholder or officially interested in any insurance company. If he does not own any stock, if he is not officially interested in an insurance company, the presumption is that he has the necessary qualification to fill the job.

Now, the necessary qualifications in my own State—in Wisconsin—are to get the delegates in convention and then to get the votes on election day. [Laughter.] Kansas did have a provision at one time requiring that the governor of that State should appoint a man well versed in the business of insurance, but after they had had a term served by a man by the name of McNoll they repealed that provision of the law. Ohio has had a provision like that in the law, and yet it has never been lived up to; and without casting any reflection upon any former governor of the State of New York, I am not ready to believe that a greater qualification would be demanded under this bill than when the President appointed the recent insurance commissioner in that State. So that unless you would provide in this law qualifications for the incumbent that would insure to people of this District and this country better service than they are assured in other States, there is no reason why the examination made by the commissioner of the District of Columbia should be worth any more than an examination made by any other superintendent in this country, and the commissioner has already authority to accept examinations made by some other commissioner.

As Mr. Crouse said, he would accept the certificate of Commissioner O'Brien. But if a Maryland company applied to the State of Minnesota, Commissioner O'Brien would hardly ask the insurance commissioner of Illinois to go and examine the Maryland company. Now, if he would not do that, why should he ask the insurance commissioner of the District of Columbia to butt into Maryland and examine a company there?

This law provides in one place that the insurance superintendent of this District shall accept the foreign statement—the statement of the United States branch of a foreign insurance company—and then in another place it goes to work and authorizes him to go over and examine the foreign company in its own country. Now, to all intents and purposes, the foreign branch of a foreign fire insurance company is a separate and distinct company in this country. We ask them, under the laws of any State in this Union, to put up a necessary deposit with the State, and then we compel them to keep on hand a larger reinsurance reserve than they are compelled to keep in their own country, and they can not withdraw their deposit until all the liability under every policy issued has been done away with; so that to all intents and purposes it is a United States company, and when the insurance commissioner of a State desires to know whether that company is insolvent, he goes and examines the United States branch.

Mr. CLAYTON. It confers a new duty upon some Federal official, does it not?

Mr. FRICKE. Without asking that foreign company to file its home-office statement with the District; it does not ask the foreign com-

pany to file its home-office statement. All it requires is its United States branch statement.

Now, section 2, which has been called to your attention, requires all companies licensed here to be subject to the provisions of this act.

Mr. PARKER. Gentlemen, I am sorry to say that it is the second roll call, and they lack a quorum in the House, and therefore we will now take a recess and resume at 3 o'clock this afternoon.

(Thereupon, at 12.35 p. m., a recess was taken until 3 o'clock p. m.)

AFTER RECESS.

The committee, pursuant to recess taken, reassembled at 3 o'clock p. m. Hon. Richard Wayne Parker in the chair.

STATEMENT OF MR. WILLIAM A. FRICKE, OF NEW YORK CITY— (resumed).

Mr. PARKER. The committee will come to order. I believe that Mr. Fricke broke off in the midst of his remarks.

Mr. FRICKE. May it please the committee, Mr. Ames handed me a copy of his amendment, and in the proposed bill have been incorporated a number of suggestions made, but the proposed law is not yet by any means a model code.

A large part of this code is taken up in proposing a plan or method for the election of directors which radically differs from the plan proposed in New York, and while the amendments accepted by Mr. Ames now make this method applicable only to mutual life insurance companies organized in the District of Columbia, it is useless to adopt that provision for the simple reason that there will never be any opportunity to make use of it in the District of Columbia, because another portion of the code, which provides or claims to provide for the organization of mutual life insurance companies—that part of the law should properly be denominated “An act to prevent the organization of mutual life insurance companies,” because in the first place it requires just as much capital—\$200,000—for the organization of a mutual life insurance company, and in addition to that, 1,000 subscribers for at least \$1,000,000 of insurance, each of whom has paid in one full annual premium.

Now, I did have seriously an idea that Washington would be a grand place to organize an ideal life insurance company, but I have changed my opinion considerable about that. If I were going to organize a life insurance company in the District of Columbia I would organize it as a capital stock company, and then I would go on and try to do business and try to get my policy holders afterwards.

New York does not ask quite as much. They require only \$100,000 and 500 subscribers, and in another portion of this law it requires of companies transacting business in the District of Columbia to have the same amount of capital required of domestic companies. That is section 77, page 104. You can find that by just turning over the bill while I am talking about this. It provides—

SEC. 77. That no foreign insurance company admitted to do business in the District of Columbia shall be authorized to transact any kind of business therein which is not permitted by this act or to transact more classes or kinds of insurance therein than is permitted by this act to any domestic insurance company, unless its capital stock is at least equal to the aggregate capital stocks required of domestic companies authorized to do said several kinds of insurance.

Under this section the Equitable Life, which has a capital of only \$100,000, would be excluded from the District of Columbia, because the District of Columbia requires of life insurance companies a capital of \$200,000. So that unless you are going to enact a law which will make it possible to organize mutual life insurance companies in the District of Columbia, you are wasting your time in drafting a long patented method of electing a directorate which may never exist.

Let me say, Mr. Chairman, if you please, that from what experience I have had, a model code, a code which would be looked upon as a model, would be one which very largely restricts itself to the most stringent and effective measures governing the organization of companies in the District of Columbia, so that when they go out and transact business the equity and benefit which they confer will carry the information to the people of the country that the law under which they are organized and under which they are supervised must in fact be a model code.

You will perhaps remember that was largely the case with the Massachusetts companies when the law of net valuation was enacted in Massachusetts, followed in 1861 by the enactment of a nonforfeiture law, the first in this country. Although that law applied only to the companies organized in Massachusetts, they went out and educated the people as to the equity, as to the fairness, as to the benefits conferred by insuring in the Massachusetts companies, and if there had not been a nonforfeiture act passed in any other State, competition would have forced other companies to do equity to their policy holders, and it was by reason of that one law alone that Massachusetts companies for years were pointed to, and their agents argued that they were better than other companies. If you want an ideal code in the District of Columbia, you must confine yourselves very largely to an insurance department where real ability shall be necessary to secure stringent supervision and effective requirements as to the organization and management of your home companies.

The law governing standard policies has been amended in some particulars, and not in the policy forms themselves. If the standard forms are enacted, New York companies will have to issue those forms in the District of Columbia. There will be eight standard forms, provided the insurance superintendent of New York accepts the standard forms as standard which this code provides for. Yet there still is that difference of two and three years as to values.

In section 4, on page 3, as to the publication of assets, which makes it a misdemeanor for the company to publish in its annual statement as to its assets or liabilities sums other than those passed upon by the superintendent of insurance, that section requires amendment so that it may be definitely understood, because the Maryland commissioner may receive the same annual statement that the insurance commissioner of the District of Columbia receives. He may disallow certain assets in that report, and then the figures will differ. If the company publishes those assets in Baltimore according to the findings of the Maryland commissioner, somebody might inadvertently bring some of those statements over here to Washington, and differing, as they would, from the District of Columbia, the company may incur a penalty.

Now, as to examination, the law on examinations, although amended, has not been improved at all, and this thought comes to me: When I remember what my friend, Mr. O'Brien, of Minnesota, said this morning, that he had 502 insurance companies in Minnesota, and that he was wholly unable, by reason of lack of time and necessary help, to give them proper supervision, it seems to me there is not an insurance commissioner or insurance department in the country that can not give to his own home companies all the time, all the supervision that is absolutely necessary for him to give in order to know without any question just what is the condition of each company in his State; and if each commissioner in his own country did that as to his own home companies, the Minnesota commissioner would not be called upon to supervise 502 companies.

Then, again, it is not necessary for a commissioner of any other State to request the insurance commissioner of Washington to make an examination, because under the law the insurance commissioner has authority to appoint all the help necessary to make an examination; and I think, in fact I know, I would feel that way, if I was still insurance commissioner of Wisconsin, that if Mr. O'Brien sent the Washington commissioner into Wisconsin to examine a Wisconsin company it would be rather slighting the Wisconsin department. However, if he went down to New York and engaged expert accountants, which he would have the right to do under his law, and should send those expert accountants into Wisconsin to examine the company, there could not be any possible objection.

Mr. AMES. May I make an interruption, or would you rather not be interrupted?

Mr. FRICKE. Go ahead; go right on.

Mr. AMES. If you will look on page 80 of your bill and read from there down, you will see that a company might come into this District and issue a standard form other than those prescribed.

Mr. FRICKE. Yes, sir; and you are placing no requirement upon the commissioner as to a knowledge of insurance; but you would require me, if I desired to issue another standard form, to submit that standard form to the commissioner in the District; and the commissioner goes to work and notifies every company, and they come in and have an inquest upon my form, which I submit, which may have taken me years to formulate and to which I may have given the study of years to perfecting a contract which I desire my company to issue; and I have to submit my formulas and tables and must tell everybody how it is possible for me to do these things. The commissioner under your law is not required to know anything about insurance, and God knows, I have been in the thing myself, and when you find any commissioner who knows anything about insurance it is a political accident, and they try to correct that mistake as soon as possible. [Laughter.] They change this contract, and then everybody is at liberty to use it, and, as I said in the printed review of this bill, if the patent laws of the United States had provided nothing further as an encouragement to American inventive genius than to issue a certificate and say "This is a patent" and then allowed anybody to infringe upon it, it would have shut the doors against all ingenuity and there would probably be as many patents issued by the United States Government as there would be mutual life insur-

ance policies under this act. There are not enough philanthropists in the country to organize them. [Laughter.]

I do not like to take up the time of this committee by calling attention to every section, but I would prefer, Mr. Chairman, to have written out and mailed to you my observations.

Mr. PARKER. I would say for myself that as to important points I would rather hear than depend upon reading.

Mr. FRICKE. Then let me call your attention to one provision in the insurance code. Turn to page 117. Remember this is a code of insurance laws. Section 108 says:

That no corporation doing business in the District of Columbia shall, directly or indirectly, pay or use, or offer, consent, or agree to pay or use, any money or property for or in aid of any political party, committee, or organization, or for or in aid of any candidate for political office or for nomination for such office, or for any political purpose whatever, or for the reimbursement or indemnification of any person for moneys or property so used.

You will observe that it does not say there "No insurance corporation," but it says "No corporation." Now, the purpose of that section may be a good one. It is questionable, however, whether you want to regulate all the corporations that are doing business in the District of Columbia in this hidden-away section in an insurance code.

Again, section 98, page 114. That provides—

That an insurance company which, within or without the District of Columbia, insures upon a single risk a larger amount than the law permits shall be punished by a fine of \$500.

Now, that would authorize or give the superintendent of insurance of the District of Columbia authority to punish some company for something that they had done up in Alaska or in California.

Another section of this act permits the insurance commissioner of the District of Columbia to subpoena anyone—an officer, agent, or anybody else—whose testimony he may deem necessary; and although the man whom he subpoenas may be in New York City, and may know nothing about the subject-matter upon which he is to be examined, yet if he neglects that summons he is punishable under this law.

Then there is another provision that I desire to call Mr. Ames's attention to, and also the committee's attention to, and that is in section 22, covering the capital stock required of insurance companies. A section of that kind, Mr. Chairman, should be as near as possible uniform with the requirements of other States. Now, the capital required under this code differs very materially from the capital required in most of the States as to different classes of business, and in one particular no provision is made—in lines 6 to 10, inclusive—for capital required of a company organized to do a fidelity or burglary or theft insurance business. There is no provision there for a capital requirement, although a little further on it provides that a company desiring to do business under the fourth, or the sixth, or some other number, may be organized jointly by putting up that capital.

Mr. AMES. Will you permit another interruption?

Mr. FRICKE. Yes.

Mr. AMES. You state that the amount of capital required should be as near uniform as possible, and you say that the large majority of the States do not have these limitations?

Mr. FRICKE. Yes, sir.

Mr. AMES. Is it not also a fact that a large majority of the States do not have good insurance laws?

Mr. FRICKE. They have as good insurance laws as this. [Laughter.] I do not know of any State that has been admitted into the Union for any length of time that has insurance laws that would not double discount this one. [Laughter.]

Mr. AMES. I have no doubt of it; but Massachusetts and New York and Illinois and Connecticut and Rhode Island and New Jersey, you will find, all embraced practically within those few lines the requirements in regard to capital stock—

Mr. FRICKE. So that, Mr. Chairman, with the printed review that I have mailed to the members of your committee, that is really all that I have to say, and I will give way to some of the other gentlemen, unless some members of your committee desire to ask me some questions.

Mr. BRANTLEY. I would like to ask you, Do you think this bill could be perfected so that it would be a good bill?

Mr. FRICKE. I believe, sir, if you appointed a smaller subcommittee, or referred this bill to a commission of three or four to report at the next session, that that commission could present to you a code which would be about one-third as large as this and, so far as the organization and supervision of domestic companies are concerned, it would be a model which other States would be glad to follow. So far as the supervision of companies of other States is concerned, that is not a difficult proposition. It is difficult, however, to figure out of this code that which does and that which does not apply to companies of other States.

I want to pay Mr. Ames this compliment, that no man has been more ready and more willing and more anxious to present a perfect measure, to listen to arguments, and accept suggestions than he has been; but notwithstanding that fact, the effect of this code, gentlemen, if enacted into law, would be that any company organized in the District of Columbia would be discriminated against when it goes into all the States, and companies of other States will hardly be able to comply with your laws. Instead of its being a discredit for them not to come in, it will be to the credit of the company's management not to come, but to stay out. [Laughter.]

Mr. PARKER. A good deal has been said here about the advantage of having a proper law for United States supervision of the assets of insurance. I do not mean supervision in the sense of control, but simply supervision in the sense of going over them and finding out about their assets, and so forth, before allowing them to come to the District of Columbia and do business. It has been suggested that it would save money and enable one single investigation to answer the purposes of many. What have you to say as to that? Is a bill providing for a supervision of that sort, or an insurance officer or commission to do that, advisable?

Mr. FRICKE. I can only give you my own personal view on that matter. A view which may differ very much from the views of several of the other gentlemen present. I myself believe that but few simple regulations are necessary wholly to revolutionize the business of life insurance in the interest of the policy holders. This bill does not provide that, although the conference in Chicago recommended that.

This bill leaves wholly the deferred-dividend policy holder, who constitutes now 80 per cent of all the business outstanding, without any protection at all. It prohibits the deferred-dividend contract in the future, but it does not accept the recommendation of the Chicago convention that on all the deferred contracts heretofore issued there shall be an annual accounting and apportionment to the policy holders. And the more you read the testimony of the New York investigation, the more you will become convinced that one great evil in life insurance was the unaccountability of company management as to all the funds intrusted to their care; that that unaccountability engendered an extravagance which made possible all the things which are subject to criticism.

One of the chief recommendations of the Chicago conference was that upon all of these policies—whatever may be done in the future, I do not believe it would be necessary even to prohibit them, although the Chicago conference did believe that—they took the position that upon the contracts outstanding there should be an accounting and apportionment. And if that were the case, every policy holder, year by year, would have placed in his hands the greatest test of merit which can be placed upon company management. Competition between companies would resolve itself into showing results for the policy holder. It would be the greatest check upon extravagance. It would be the greatest means toward conservatism and economy.

If you provide in a proper law for such an accounting, it would be necessary for you to determine what constitutes divisible assets. Under this law, taking no consideration of the 80 per cent of policy holders who hold deferred-dividend contracts, the result will be that those deferred policy holders in the future will be in a worse position than they ever were in before, because the merit of the company from January, 1907, on, will be graded by returns which are made to the annual-dividend policy holders.

The law of the State of New York and this code builds a high, big fence around the deferred-dividend policy holder. None can get out except at a loss, and none can get in. It does not make any difference what the settlement is that is made to these deferred-dividend policy holders at the end of their deferred period. No other insurance company could get such a policy anywhere; they do not issue them any more, and the result will be that the deferred-dividend policy holders that are in will have their funds exploited in order that these companies having a large volume of deferred-dividend business on their books can make a showing against the purely annual-dividend companies.

Now there is one of the essential recommendations, one of the most important remedies for existing evils, which has been entirely overlooked in the code; and were you to place in your code a provision of that kind, that there shall be an annual accounting and apportionment made to each policy holder, it would be necessary for you to define in your law how the company shall arrive at what constitutes divisible surplus.

It is hardly fair to say as to a life insurance company that surplus is an excess of assets over all liabilities. I think there was a carefully drawn line providing that as the reserve must be compounded at a certain rate of interest, the asset value of all securities and dividends

of the company must be on such a basis as will net to the company at least that interest rate; and when you have a law properly drafted on that basis it does not make much difference whether you allow them to invest in bank stock, as your law provides, or in certain classes of bonds, as the New York law tried to prohibit. In a proper law of that kind, requiring an apportionment and accounting, the definition of what constitutes divisible surplus would be not only a test of merit, but a stringent requirement.

Mr. PARKER. I do not think you quite understood my question. It has been suggested, outside of the organization under the law, so far as this provides for the organization of companies in the District of Columbia, that the establishment of an office here, with a commissioner of insurance at its head, which would examine into companies that should be authorized to business here, other companies, outside companies, would save a great deal of trouble when a company wanted to extend its business, say, into 15 different States, and it therefore would be an advantage to the insurance business of the United States to have this central investigating office here, to determine as to whether the companies were solvent or not and to make some statement as to assets and liabilities. What is your opinion about it? Is it worth while to have a supervisory commission here for insurance carried on by foreign countries in the District of Columbia? Would it aid the insurance business in the United States or not?

Mr. FRICKE. The law of every State of the Union now provides that when a company is organized the State commissioner of insurance must investigate those assets and furnish a certificate to this new company as to its financial condition. My own experience has been that when a new company like that applied for admission to the State of Wisconsin it was always accompanied by such a certificate of examination, made by the insurance commissioner of its home State; and I think you will find, too, that in a great majority of cases when a company organized desires to go into a number of States, they have some examination either by their home department or some other department immediately prior to that time, so that I do not think there would be any special advantage.

And then you must remember another thing, and that is, that insurance commissioners in the United States are continually changing. We have had State supervision over something like 500 insurance companies in the United States. It would be difficult for many men in this room to name 15 of them. The insurance commissioners are continually changing. Making examinations is one of the perquisites of an insurance commissioner, and unless you can wipe out the perquisites, the mere enactment of a law of that kind in the District of Columbia, however good it may be, will hardly prevent a lot of insurance departments from making examinations.

A law was proposed in the State of Wisconsin which passed both Houses but was vetoed by the governor for some technicality, and it first made it the duty of the insurance commissioner to examine every domestic company once in three years, and then to furnish to each insurance department of every State in which that company was doing business a certified copy of that examination. It then provided that every company of any other State or foreign country licensed to

do business in that State must once in three years furnish the Wisconsin department with a certified copy of an examination made by the insurance department of its own State, and that when this law was complied with in that manner, then if the insurance commissioner deemed it necessary for the protection of the people of the State of Wisconsin to examine such an outside company, the examination was made at the expense of the people of Wisconsin, for whose protection it was made. If the company failed to file such a certified copy of an examination once in three years with the department then it became the duty of the insurance commissioner of Wisconsin to go and examine the company, at the company's expense, the cost of the examination to be paid out of the State treasury, and when collected by the company paid back into the treasury.

It seems to me that covered all the requirements and did away with the fees and perquisites of examinations.

[Filed by William A. Fricke—From The Weekly Underwriter, May 12, 1906.]

REVIEW OF THE AMES BILL IN CONGRESS.

This bill should not be credited to the conference of governors, attorneys-general, and insurance commissioners, nor to the committee of fifteen appointed to consider and report on uniform corrective legislation. Only a minority of the committee were present when this bill was presented for consideration; but a few hours could be given to it, and as introduced it does not contain the essential recommendations agreed upon by the conference.

One serious defect in this bill is that while permitting only the issuance of annual dividend policies by mutual life insurance companies, and nonparticipating policies only by purely stock companies, it does not make provision for an annual apportionment and accounting on the deferred-dividend contracts heretofore issued by companies, thus leaving managements wholly unaccountable for long series of years on 80 per cent on all policies on which 80 per cent—fully \$250,000,000—of the present surplus was accumulated.

Section 1, pages 1 and 2: Why should not the term "insurance company" include fidelity and surety companies?

Why would not the term "domestic" be more properly applied to companies organized in the United States, and "foreign" to companies organized in other countries, and "local" companies to those organized in the District of Columbia?

Definition of "unearned premiums," "reinsurance reserve," "net value of policies," and "premium reserve" not clearly defined, nor does section 8, to which reference is made in line 3, page 2, provide how same shall be computed.

Definitions "net assets," "profits," and "a contract of insurance" should be improved on.

Section 2, pages 2 and 3: Makes all companies of other States and countries "subject to the provisions of this act as a condition of transacting any business of insurance within the District of Columbia."

Section 4: The words "in the District of Columbia" should be inserted after the word "assets" in line 18.

Section 5, page 4: Does not require a knowledge of insurance as a prerequisite for appointment as insurance commissioner, requiring only that the appointee shall have no official connection with, own any stock in, or be interested other than as a policy holder in an insurance company.

It creates a purely local district office as a bureau in the National Department of Commerce and Labor, without giving to the Secretary of that Department any jurisdiction over this Bureau, except that in section 6 the Secretary is directed to cause a seal of office to be made for the insurance department, and in section 12 it is provided that the insurance commissioner shall annually make a report to the Secretary, but no provision is made what the Secretary shall or may do with it or whether it shall be printed or not.

Section 8, page 4: To this section should be added after the last word in line 13 "in the District of Columbia."

The words "authorized to do business" in line 24 should be stricken out and the word "incorporated" inserted; all after the word "District" in line 25, page 5, and lines 1 and 2, page 6, should be stricken out.

Lines 3 to 7, inclusive, page 6, would confer authority which Congress does not possess and which is unnecessary if such a company, not authorized to transact business in the District of Columbia, consents to such an examination. However, the expense of all such unauthorized examinations would, according to this code, be borne by the United States Government, although the people of the District of Columbia, for whose benefit examinations should primarily be made, are not at all interested in the result. These lines should be stricken out. All after the word "report" in line 11 and words in lines 12 and 13 should be stricken out.

Lines 12, 13, and 14, page 7: "May withhold such report from public inspection" would seemingly conflict with lines 8 and 11, inclusive, page 6. Unless changes suggested in this section are made, lines 15 to 22, inclusive, page 7, will require amendment.

This "model code" gives the impression of an effort to create a national department of insurance, hoping that no one will find it out, and then, if enacted into law, accept the results.

Section 9 should provide that the information called for shall be published in the annual report of the commissioner of insurance.

In re lines 19, 20, and 21, page 8: What does "a statement of any certificate issued by the superintendent extending the time for the disposition thereof" refer to? Evidently copied from New York law and refers to real estate obtained by foreclosure. This code makes no such provision as to domestic companies or certificate by the commissioner.

In re lines 19 to 22, inclusive, page 14: If the commissioner is to be authorized to examine "any company organized under the laws of any foreign company" (see line 25, p. 5, and line 1, p. 6) why should such foreign company transacting business in the District of Columbia not be required to file also a copy of its home-office statement? Either that or the commissioner should only be granted authority to examine its United States branch covered only by the report required in section 9.

Section 10: After the word "interest," in line 19, page 15, the words "but not lower than 3 per centum per annum" should be inserted.

If the makeshift of preliminary term valuation is to be injected, then insurers should at least be so far protected by inserting, after the word "policies," in the fifth line, page 15, the following, "for the first year of insurance: *Provided, however,* That any premium charged in excess of the ordinary life rate at age of insured shall be charged as a reserve liability."

If permission to employ makeshifts is to be injected into the statutes it would be better to employ the "select and ultimate method of valuation" enacted in New York, though neither makeshift is required to evade a full reserve if annual apportionment and accounting to each policy holder is provided for, and if companies are required to keep within the expense loadings of premiums.

What does all after the word "risks," in lines 16, 17, and 18, page 16, mean?

Section 11 should provide that the commissioner shall accept the certificate of valuation of the insurance commissioner of the State, under whose authority a company is organized and licensed to transact business, when such valuation has been made according to at least the minimum standard provided in section 10, and provided that the insurance commissioner of such State accepts the certificate of valuation as furnished by the commissioner made by him of companies organized in the District of Columbia.

Section 12 provides only for an abstract of the annual statements of companies in the annual report of the commissioner. Unless the information called for in section 9 is published in full, the information asked for will be of little use to policy holders.

Section 15, page 20, lines 17 to 20, inclusive: If a company has a right to appeal, why should its license be revoked pending such appeal? The commissioner should have no discretion in the matter and the question of revocation should await final adjudication.

Section 16: This section deals with the impairment of capital, and makes provision if impaired to the extent of one-fourth or more on the basis fixed in section 10. Section 10 does not fix the basis of capital.

If this section intends that if the actual funds of a life insurance company are not equal to the net value of its policies, etc., why not say so? A mutual life insurance company has no capital stock to assess, and legislation as to impairment requires other provisions than laid down in section 17, but there seemingly is a conflict between line 18 in section 17 and line 12 of the same section, and lines 11, 12, and 13 of section 15, page 18.

Section 18 is unnecessary. (See lines 2 to 5, inclusive, p. 19, sec. 14.)

Section 19: Why not strike out, in lines 19, 20, and 21, page 22, the words "for abstracts or summaries of annual statements for publication when prepared by commissioner, \$5?" The provision in lines 24 and 25, page 22, and line 1, page 23, "for each copy of paper on file in his office, 20 cents per folio, and \$1 for certifying same," covers the matter fully, and in this connection attention is called to section 20, which is a needless repetition of the same matter.

All after the word "dollars," in section 19, line 9, page 23, should be stricken out. Retaliatory laws are vicious in principle and unjustifiable in practice. Such a law can not benefit companies organized in the District of Columbia unless the retaliatory fees collected would be returned to them to reimburse the domestic company for the larger fees and taxes paid in other States. To impose retaliatory fees on companies of other States is imposing a penalty for an offense of which they are innocent, making a third party the beneficiary, and does not at all benefit the companies organized in the District of Columbia.

Retaliatory laws have cost policy holders of insurance companies millions of dollars, not one dollar of which has been of the least benefit to them. These laws are costing policy holders hundreds of thousands of dollars annually, and their repeal would do more to make an insurance lobby unnecessary than any law restricting legislative expenditures can do good.

Section 21: Subsection 4, page 24, lines 20 to 22, inclusive, conflicts with section 1, which excepts fidelity and surety companies. (See line 7, p. 1.)

Section 24: This section should properly be entitled "A law to prohibit the organization of mutual life insurance companies."

This section requires the same amount of capital for the organization of a mutual life insurance company as for a purely stock company, and the stockholders having made the mutual company an assured success, which in a purely stock corporation would enhance the value of their stock, they are permitted to surrender it for its par value.

Capital in a mutual life insurance company can be of value only as an evidence of good faith, and this evidence of good faith can be secured without placing the control of the company in the hands of a few stockholders and burdening the policy holders with the added expense incurred by stock dividends. The Mutual Life Insurance Company, of New York, for example, was organized under a requirement of 500 subscribers for insurance, each of whom had paid in one annual premium.

The District of Columbia offers an especially promising field for the organization of a mutual life insurance company under a proper law.

Such a law should provide that "if organized as a mutual life insurance company, at least 500 persons shall have subscribed in the aggregate for at least \$1,000,000 of insurance upon their lives, and shall each have paid in one full annual premium in cash upon the insurance subscribed for, and shall deposit with the Treasurer of the United States, in securities required by law, at least the reserve on all policies as determined by the insurance commissioner according to the legal minimum standard prescribed: *Provided, however*, That the valuation of such policies shall be made on the net premium basis; the legal minimum standard shall be the American experience table of mortality, with interest at 3½ per cent per annum: *And provided further*, That no policy issued shall be valued as term insurance unless premiums are based upon net term rates, nor shall the commissioner of insurance be permitted in the calculation of the reserve of such a company to vary the standard of reserve on the basis of any assumption of mortality, expense, or interest savings during earlier policy years. Every such company shall make an annual apportionment and accounting of surplus to each policy holder, and shall be limited in its expenditures for cost of management and the conduct of its business to the expense loading of its premiums."

Such a law would not only offer ample security to its policy holders, but with a proper law providing for the election of directors—in person or by mail—proxy voting eliminated, would enable the creation of the ideal mutual life insurance company, furnishing ideal protection.

There are no makeshifts necessary—preliminary term, select and ultimate, or any other method of valuation—to evade a full legal-reserve requirement; nor is there needed any method to enable managements to encroach on the funds of other policy holders for more than the cash premiums received provide for proper and necessary expenditures. This, with statutory enforcement of an annual apportionment and accounting to each policy holder, an annual statement

to the insurance department, giving complete information as to financial condition and methods of management, is all the restriction a life insurance company needs to give the best service to its policy holders.

The injustice of section 24 in requiring of a mutual life insurance company the same capital as of a stock company is further emphasized by the provision of section 30, line 3, page 35, requiring in addition to such capital that "at least 1,000 persons have subscribed for level-premium insurance therein to an amount not less than \$1,000,000, and that premiums for the entire amount for one full year have been paid," etc.

Section 25: The provisions of this section should be confined to companies organized in the District of Columbia; so far as applying to companies of other States or countries, the business done in the District of Columbia should, if at all, only be so limited.

Section 26: The word "capital" in this section should be changed to "funds." County, town, and school district bonds should be included in subsection 4.

A new subsection should be added to read as follows:

"In the notes of policy holders in sums not exceeding the lawful reserve held upon any policy, on the pledge of such policy as collateral security."

While not in express words or directly authorizing a company management to act as dealer and cash in poker chips, subdivision 9, page 33, would permit financing the dealer by loaning to him funds on "personal securities, payable at a time not exceeding one year, with at least two sureties."

Subsections 6, 8, and 9 should be stricken out, as they form dangerous precedents; to open the door so widely is only a short step from providing that three gold balls shall be the recognized emblem of an insurance company.

Section 31: In lines 10 and 11, page 35, the words "or if after it has commenced to issue policies it shall cease for the period of one year to make new insurance" should be stricken out.

Suppose the management of a company having \$1,000,000,000 of insurance determined not to write new business, should such determination cause its corporate powers to expire and the commissioner be authorized to proceed to close its affairs?

There is ample authority to wind up the affairs of a company if insolvent, but so long as a company maintains solvency and pays its claims, what difference does it make whether it writes new business or not? The National Life of the United States of America did not write any new business for years, and then started in again and is in existence to-day.

Section 33: The Ohio or Wisconsin law on reinsurance should be enacted in place of section 33. The interests of policy holders in the reinsurance of a company are too vital to be left alone to the permission of the insurance commissioner.

Section 34: The word "third" in line 14 should be changed to "half."

Section 37: The words in lines 16 and 17, "or by proxy or representative," should be stricken out.

Sections 38 to 46, inclusive: It would be so easy a matter to formulate a method of representation on the board of directors of a mutual life insurance company, by the election of such directors according to States or localities based on the membership therein, and so provide a direct vote by policy holders, either in person or by mail, without the intervention of the proxy or cumulative voting, that the interest of the policy holders would be much better secured, and give to each a direct and intelligent opportunity for a full and free expression of his choice when an emergency or necessity arises. The freer, fuller, and more direct such choice may be expressed the greater will this power of the membership act as a check on company management.

Take, as an example, the application of the cumulative plan proposed in this code to the Mutual Life of New York, if the 16,709 policy holders in Wisconsin were to send a representative to the meeting December 18 to elect its 36 directors. There were 689,321 policies in force December 31, 1905, and if held by 689,351 persons and each voting for the 36 directors, there would be 689,351 votes cast at the election; the Wisconsin representative attending the election and representing 16,709 policies casts all his votes on the cumulative plan, either for himself or some one other candidate, and so deposits in his own person 601,524 votes for one person.

The only purpose of cumulative voting has been to protect minority interests.

With a method of State or local representation on the board of directors provided, cumulative voting is as unnecessary as the proxy, for the policy holder then in person or by mail can intelligently and directly make his own choice,

with no chance of combinations or manipulation, and at less expense than the plan presented in this code.

Section 47: There are two suggestions worthy of consideration in connection with this section:

1. That with annual apportionment and accounting provided on all policies heretofore or hereafter issued, the application of the dividend may well be left as a matter of contract between the insured and the company, as there are, and may be more valuable methods of application to meet the conditions desired by the insured than only those provided for in this section.

2. That the application provided for in lines 1 to 6, inclusive, page 43, permits a life insurance company to assume a banking function, by permitting the company to accept apportioned surplus accumulations as deposits, pay interest thereon, and invest such deposits, not for life insurance purposes, but to enable the company to pay the interest. The laws of a number of States prohibit life insurance companies from doing any banking business. If the interest agreed on should not be realized or there should come an impairment of such deposits, then the funds of policy holders would be used to make good a speculative venture not contemplated in life insurance.

Lines 20 and 21, page 42, authorize setting aside from surplus "a contingent reserve not in excess of the amount prescribed in this act."

Where in the act is such amount prescribed?

With the very wide latitude given companies in this code as to investments, it would seem especially necessary that a rule be laid down for determining the annual divisible surplus, but other than providing that every such corporation on December 31 of each year, or as soon thereafter as may be practicable, shall ascertain the surplus earned by it during the year, from which shall be set aside "the sums required for the payment of authorized dividends upon the capital stock, if any"—"a contingency reserve not in excess of the amount prescribed in this act," every such corporation shall separately determine the aggregate amount of the remaining surplus, which shall be equitably apportionable to all policies issued on or after the 1st day of January, 190—, and shall ratably apportion such amount to said policies.

That there may possibly be a large proportion of the policies of the company heretofore written on the deferred dividend plan and properly should have a share in "the surplus earned by it during the year" does not seem to have been given consideration.

Nor does the recommendation of the conference of governors, attorneys-general, and insurance commissioners held in Chicago, February 1 and 2, 1906, that on deferred dividend policies already issued "there should be required from this time forward an annual statement and provisional apportionment of surplus to each policy holder, and the aggregate so apportioned to such policy holders should be charged as a liability of the company," seems to have been given any special weight by the compilers of the model code, yet from the President's message to Congress that "the convention was seeking to accomplish uniformity of insurance legislation," "and as prime step toward this purpose to endeavor to secure the enactment by the Congress of the United States of a proper insurance code for the District of Columbia, which might serve as a model for the several States," one would be led to believe—as honestly does the President, and who admits that he has no expert familiarity with the business—that this bill really emanated from the Chicago conference. There is not a governor who attended that conference but would veto this "model" if passed by the legislature of his State as presented in this bill if he understood how wholly inadequate it is as an insurance code; and it is questionable whether there is a single insurance commissioner who carefully goes over its provisions who would be ready to offer it as a shield of protection to the people of his own State.

Companies could readily give up so small a field, and without reflection withdraw, and the chief aim of a model code for the District of Columbia should be such simple, effective provisions governing the domestic companies as to their organization, conduct, and supervision as to have them, when they go out into other States to transact business, carry the conviction, by their equity, security, benefit, and publicity, that the laws under which they were organized, conducted, and supervised must in reality be a model code.

Section 50: Eighteen years of experience with this law in other States has proven it to be ineffective, nor does it offer the remedy for an evil.

The only effective remedy to minimize rebating is to limit the amount of commission which can be paid in any one year to within the expense loading of the cash premium actually received by the company; this would tend to

make commissions uniform, and if then the agent rebates he injures no one but himself.

How utterly ineffective the section here presented can be shown by this illustration: An agent writes an ordinary life policy for \$1,000 in the District of Columbia, on which the annual premium is \$21.10, of which he returns to the applicant either \$5, or even \$8.44—his full commission—as an inducement to take the insurance; and the agent has committed a glaring violation of this law.

Another agent persuades another resident of the District of Columbia to pay to the company \$100,000 to purchase an annuity; the agent's commission is 5 per cent, and he returns to the annuitant \$4,000 as a rebate to prevent the annuity going to some other company, and the agent has not violated this law. The law refers only to life or endowment policies.

To enact antirebate laws and permit encroachment on other policy holders' funds to pay excessive commissions has proven as effective in benefiting the policy holder as a pretty nicely scalloped piece of pink-tinted court-plaster pasted over a carbuncle on the back of his neck would prove in curing the boil.

Section 50 should be stricken out.

Section 52: In place of the word "hereunder," in lines 16 and 17, page 47, insert "in the District of Columbia;" in line 18 strike out the word "any," and insert "the;" in the same line, after the word "policy," strike out the words "issued thereon."

Section 54: With section 53 and other sections as to policy provisions, it hardly seems necessary to enact standard policy forms and then close the door to all originality, progress, and incentive on the part of any company to present a contract form more nearly covering the protective needs of the people by first compelling the submission of the form for approval to an incumbent in the office of insurance commissioner, whose only qualification for appointment laid down in this "model code" is that he shall not be officially interested in or a stockholder in an insurance company, and then, having submitted such a form, with the necessary tabulations and calculations, and proven the reasons why the company should be permitted to issue such a policy, the insurance commissioner is persuaded to approve the form with or without modifications thereof, as may seem to him expedient, and establish the same as a standard form of policy which any company doing business within the District shall be entitled to use in addition to the forms hereby prescribed."

Yet such a new form may represent the study, thought, and work of years.

What a stimulating effect it would have had on American inventive genius if the United States patent laws had provided only for the issuance of a certificate reciting "this is a patent," and then served notice on everybody that they were entitled to make use of it without infringement. There would probably be as many patents issued under such a law as there will be philanthropists to put up the necessary capital to organize mutual life insurance companies if this "model code" is enacted.

Section 73: If this section refers only to fire insurance, the word "fire" should be inserted before the word "insurance" in the eighteenth line.

Section 86: Should either not apply to life-insurance brokers, or, if it does, should require that the application for such broker's license be indorsed by the companies with whom insurance or reinsurance may be placed.

Section 87: Same objection as to section 86, as section 89 provides that such broker "be held to be the company's agent."

Section 91: With the necessary changes in sections 86 and 87, this section is unnecessary, and should be stricken out.

This "model code" offers neither hope for the new company nor protection for the old policy holder, and of these defects the man who is in should receive the most consideration. Why leave him without redress or remedy? There is no excuse for even the merest tyro attempting to draft a code of insurance laws and neglect provision for what has so clearly been shown to be necessary.

Fricke investigating committee, Equitable Life, report to directors, page 44:

"The holder of a twenty-years' distribution period policy has no knowledge whatever concerning the earnings of his policy until the expiration of the twenty years. He can not make comparisons with other companies, because he does not know the results in his own case. The absence of accountability makes possible the pursuit of rapidity of growth at undue cost, because the effect of that cost is not felt by the policy holder."

The insurance commissioners of Wisconsin, Minnesota, Tennessee, Kentucky, and Nebraska, in their report of examination of the New York Life, pages 78 and 79, say:

"Profits are being accumulated in a blind pool, carried as surplus or additional reserve, constituting a fund absolutely at the disposal of the management, inevitably creating a false conception in its mind as to the resources and obligations of the company, and leading to extravagance." And the commission heartily recommend "provisions for securing a proper accounting to the present holders of deferred dividend policies."

New York legislative investigating committee report, pages 427 and 428, Volume X:

"For the most part the companies have denied any legal or equitable obligation with reference to these accumulations prior to actual apportionment, and they have been available to provide means for lavish expense in obtaining new business and for other outlays which would have been checked by a suitable system of accounting."

Truesdale investigating committee, Mutual Life, report to directors:

"It is difficult to resist the conclusion that the policy of the management in giving preference to the 'deferred dividend payment' form of insurance was deliberately formed and carefully carried out in furtherance of its ambitious financial schemes. No regular annual accounting was required or made to the beneficiaries of the latter; such accounting was to be made in the future at the end of varying periods, with no check or opportunity for comparison of results year by year between different companies. Such a situation is inherently weak and dangerous to all concerned, and is undoubtedly directly responsible for many of the troubles which have befallen this company and those identified with its management."

The real evil in the past, as shown by these four investigating commissions, has been the unaccountability of company managements as to the surplus accumulations of deferred dividend policies, and the remedy would seem to be annual accounting—see page 44, Senate document No. 333, Fifty-ninth Congress—but this "model code," instead of incorporating this most valuable and necessary recommendation, leaves this class of policy holders to be discriminated against and in worse position than ever.

No man with any knowledge of the business and desirous of reform, if he had the choice of a law prohibiting deferred dividend policies in the future, or a proper law requiring annual apportionment and accounting to each policy holder on all policies—heretofore or hereafter issued—but would select annual apportionment and accounting as offering the most immediate and far-reaching results for good. Unquestionably, such legislative investigations as conducted by the Armstrong committee in New York, and the Frear committee in Wisconsin, of themselves will bring home to company managements a greater sense of their responsibilities and ultimately result in benefit to the business of life insurance, but it will be futile to expect that such legislative experiments as the "general bill". in New York, or this kindergarten effort at a "model code" in Washington, can bring about even an imitation millennium in life insurance managements.

Mr. AMES. I have given the committee members a copy of these amendments. I feel that they are in large measure proper amendments to the bill. I do not wish to yield up the principle involved in my bill until forced to do so by the action of the committee.

As to those amendments which insert the words "doing business in the District of Columbia" throughout the bill, that question will no doubt be thrashed out by the committee.

I submit these amendments as the result of a number of conferences. Before we start in upon the bill, upon its consideration section by section, I have been given to understand that you would like to address the committee [addressing Mr. O'Brien].

Mr. ALEXANDER. I would like to hear Mr. O'Brien in reply to Doctor Fricke. I think the other gentlemen of the committee would also.

Mr. GILLET. We do not propose to take up this bill section by section now, do we, Mr. Chairman? We want first, do we not, to get the general principles of the bill fixed in mind?

Mr. ALEXANDER. There have been points made against the bill. If they can be answered, I should like to hear them answered.

Mr. PARKER. A number of actuaries are here, are they not? Mr. Ames, I believe you have representatives here from New York and various places?

Mr. AMES. I would like to have the committee ask some questions of Mr. Rhodes, who is one of the leading actuaries of the country.

STATEMENT OF MR. E. E. RHODES, OF NEWARK, N. J., ACTUARY, MUTUAL BENEFIT LIFE INSURANCE COMPANY OF NEW JERSEY.

Mr. RHODES. Mr. Chairman and gentlemen, I appear at the suggestion of Mr. Ames, and not because I desire to offer any particular criticism of the bill.

I rather inferred from the discussion this morning that the question in the minds of the committee was whether the principle embodied in the bill before you was in conflict with your opinion rendered during the winter in the matter of Federal control of insurance.

I do not appear, and am not here, to oppose this bill. With the amendments that Mr. Ames submits, and other amendments which, in my opinion, should be made, the bill appears to me to be a step in the right direction, and one whose passage by Congress will be welcomed by many life insurance companies.

The amendments proposed by Mr. Ames answer many questions raised by the members of the committee this morning, and if made a part of the bill would have this effect: The bill simply establishes in the District a department of insurance for the purpose of controlling the business of insurance in the District. It provides a mode of incorporating domestic companies, and prescribes the terms upon which companies organized outside of the District shall do business within the District.

To that extent I favor the bill. I do not know how far you desire the speakers to go into the details of the bill.

Mr. PARKER. At present, sir, what we want to know is this: The last speaker said he did not think it would do much good. The question in my mind is, Will it or not? Will it do good; and if so, what good will it do?

Mr. RHODES. My view of that, sir, is this: The matter of insurance to-day is aflame in the public mind. Undoubtedly there will be much legislation proposed this coming winter in the legislatures of the several States that will be in session. Much of that legislation, most of it, will doubtless be unwise, injurious, not designed to protect the interests of the public. If Congress in its judgment and in the exercise of its wisdom shall pass a bill regulating insurance in the District of Columbia, I can not help believing that that act would have great influence with those legislatures of the States. Therefore I believe that a wise, judicious act passed by Congress would result in much benefit to the people of the several States. Does that answer your question, Mr. Chairman?

Mr. STERLING. You mean simply as a model?

Mr. RHODES. As a model, and as a signboard to the legislatures of the States as to the direction in which they should go.

Mr. GILLET. Have you any assurance that these States will adopt this law if enacted?

Mr. RHODES. None whatever.

Mr. GILLET. They are just as liable to follow Massachusetts or New York as they would be to follow this law?

Mr. RHODES. Yes; but I should say, if I were a State legislator, I would place great weight upon an act of Congress.

Mr. PARKER. Mr. Rhodes, have you had any experience lately in the formation of bills of this sort?

Mr. RHODES. Yes, sir; I have. I may say that when the legislative committee in New York desired to amend their bill, another gentleman and myself were asked to meet with them as advisers along actuarial lines. We met several days, and the Armstrong bill, as it is called, passed by the legislature of New York in its final form, is the result of those conferences.

Mr. PARKER. Let me ask you: You say that this bill provides for the incorporation of domestic companies in the District of Columbia. Have you been over the provisions in that regard in this bill?

Mr. RHODES. Yes, sir.

Mr. PARKER. Have you any further amendments upon that part of it than those suggested by the bill itself and Mr. Ames?

Mr. RHODES. No, sir; I think not. I have nothing to say in regard to their incorporation; but I think the bill is subject to still further amendment regarding the mode prescribed for electing directors or trustees.

Mr. PARKER. Now, still sticking to the question as to whether or not it will do good, some of the commissioners have spoken on the subject of its being an advantage to have a department of insurance to act under this law, so far as it prescribes the terms under which companies outside of the District shall do business. Will the establishment of such a bureau be of advantage or not to the rest of the insurance companies of the United States and to such outside companies? What would you say on that subject?

Mr. RHODES. I could not say, in my opinion, that it would be of any particular advantage along that line. We are not troubled with too little legislation, but with too much. [Laughter.]

Mr. BRANTLEY. May I ask you a question?

Mr. RHODES. Certainly.

Mr. BRANTLEY. Are you familiar with the insurance laws of the District of Columbia?

Mr. RHODES. The present law?

Mr. BRANTLEY. Yes.

Mr. RHODES. My understanding is that there is very little insurance law here.

Mr. BRANTLEY. Are you familiar with the insurance business of District.

Mr. RHODES. Yes. We are represented here; and the requirements imposed upon outside companies are very few. In fact, it may be said that there is very little supervision of outside companies in the District?

Mr. BRANTLEY. I just wanted to know the necessity of this law, according to your knowledge, in the District; whether the insurance business was in such condition here as to require legislation of this sort.

Mr. RHODES. No. You have had a commissioner here, who, in the absence of law, has exercised his judgment and such power as he has had, in my opinion, in a most efficient way.

Mr. BRANTLEY. The policy holders have been protected, so far as you know?

Mr. RHODES. Entirely; due as much, I think, to the personality of the commissioner, and more so, than to any other consideration.

Mr. BRANTLEY. Then, so far as conditions in the District are concerned, there is no pressing necessity for legislation?

Mr. RHODES. No; I could not say that there was.

Mr. BRANTLEY. I understood you to say you favored this bill as a step in the right direction. What did you mean by that, Mr. Rhodes, if I may be permitted to ask you?

Mr. RHODES. In this respect, as I think I said: That we could look to this committee to recommend and to Congress to enact a law regulating the business of insurance which should be far superior to a bill which would be passed by any State legislature.

Mr. BRANTLEY. You do not mean, then, as a step in the direction of Federal control of insurance?

Mr. RHODES. No, sir: I am not in favor of Federal control of insurance.

Mr. STERLING. I presume there is more intended in this bill than simply the regulation of insurance here in the District of Columbia. If that is all, I presume it is not of much consequence.

Mr. RHODES. I can not speak of the intent. The bill did not originate with any life insurance company. I am here simply as a representative of a company doing business in the District.

Mr. STERLING. Do you think insurance companies would regard an investigation by Federal authorities of any value to them in securing or soliciting business out in the States?

Mr. RHODES. Of no practical value.

Mr. STERLING. You think it would not be any inducement to them to come under the provisions of the law voluntarily for the purpose of showing, or enabling the persons who are doing the soliciting to show, the fact that they have been investigated by Federal authorities and had been found in good standing?

Mr. RHODES. Not in my opinion. I think an investigation by the State of Massachusetts would carry just as much weight as an investigation by a Federal bureau.

Mr. STERLING. I doubt that; I mean among the people generally. You get away from Massachusetts or away from New York. I think it would appeal to the people more if a company could say that its affairs had been investigated and had been approved by the Federal authorities; I believe it would appeal to the people and be convincing to them that it was a safe company with which to do business. Now, if this would have a moral effect of that kind, it would be of advantage not only to companies, but an advantage to the people also.

Mr. RHODES. There might be that moral effect, sir. I was speaking from the practical standpoint.

Mr. STERLING. Oh, from the legal standpoint, I guess it is conceded.

Mr. RHODES. I spoke of Massachusetts because Massachusetts has become famous for its strict supervision and its honest supervision of the insurance business.

Mr. ALEXANDER. I suppose Judge Sterling probably based his idea of the helpfulness of such a bureau, just now, if we should enact this,

on the fact that all the combinations and trusts are tumbling over each other to get out of the way of President Roosevelt, and people might be impressed with the idea that something is going on, and might think that if we took up the insurance business it would have some effect.

Mr. STERLING. I think it is true, Mr. Alexander, too, that the people have more faith in the Federal Government than they have in a State government outside of their own State. They may be familiar with their own State affairs and have complete confidence in their own State government, but not so with a State government other than their own. I do believe they have more faith in the Federal Government than they have in the governments of States other than their own.

Mr. BRANTLEY. It might benefit insurance companies to have this certificate from the Federal authorities, but it would not benefit the people a particle unless the Federal inspections were more thorough than the State inspections.

Mr. STERLING. I think it would be more thorough; perhaps not more thorough than every State, but I have no doubt it would be more thorough than the inspection of some of the States. There may be some State governments that have just as good protection as the Federal Government would give.

Mr. GILLETT. Take section 2 of the bill, and it reads:

SEC. 2. That all insurance companies now or hereafter incorporated by authority of any general or special law of Congress shall be subject to the provisions of this act and to such laws as may be hereafter passed affecting or altering their corporate rights or duties or dissolving them. All foreign insurance companies, as a condition of transacting any business of insurance within the District of Columbia, shall be subject to the provisions of this act.

That would include the general law for the incorporation of companies in this District.

Mr. AMES. It is next to no law at all, practically.

Mr. GILLETT. It says they—

shall be subject to the provisions of this act, and to such laws as may be hereafter passed affecting or altering their corporate rights or duties or dissolving them.

Is it not intended by that section, Mr. Rhodes, that a company coming here and incorporating under the laws of the District of Columbia and placing itself under acts of Congress can take itself beyond and outside of any legislation that may be passed by any other State, because other States can not pass any law in conflict with the acts of Congress?

Mr. RHODES. I think, sir, the several States are free now to prescribe the terms and conditions under which a company, whether organized in the District of Columbia, under a special act of Congress or not, may undertake to do business.

Mr. GILLETT. Suppose some act of Congress should be passed hereafter?

Mr. RHODES. I shall have to leave that question for you legal gentlemen to determine for yourselves. I should say that such an act, from my point of view, would not be legal; that Congress could not take away from a State the right of a State to determine the condi-

tions under which an insurance company should do business within its borders.

Mr. GILLETT. I do not believe it could, either, but I wonder if there could not be some provision there that would go beyond mere regulation and practically put the control of the insurance companies of the country under the acts of Congress?

Mr. FOSTER. That only relates to District of Columbia corporations.

Mr. GILLETT. I know; but they could incorporate over again.

Mr. RHODES. Yes; but in what way could those companies escape the supervision of other States?

Mr. GILLETT. I do not know.

Mr. RHODES. I know of no way by which they could until it is declared that insurance is commerce.

Mr. ALEXANDER. I would like to ask Mr. Rhodes a question. Can you give the committee an idea why this bill is here? Who is behind it? [Laughter.]

Mr. RHODES. I can not tell you, sir, because I am not in the confidence of those who are behind it. All that I know is this: That in February the insurance commissioners of a number of States met in Chicago; that the company with which I am connected received an invitation to attend that conference; that it was stated to be for the purpose of discussing the insurance situation. I was present at that conference, and Mr. Ames was also present and brought forward his original bill, which, I think, was introduced by him in February of this year. That was the first knowledge I had of the bill other than the fact that such a bill had been introduced. Then the insurance commissioners met again in April, when I understand that another draft of Mr. Ames's bill was presented to them and discussed and several changes made in it, and then the bill was reintroduced here. I think I am entirely safe in saying that no insurance company is back of the bill.

Mr. ALEXANDER. What good, other than that it might act as a sign-board for legislators of the several States, can it do, if you know?

Mr. RHODES. None, so far as I know, sir.

Mr. ALEXANDER. I should judge from what you said of the commissioner of the District of Columbia that as long as he was the commissioner, at least, we did not need it in this District.

Mr. RHODES. The insurance business under his supervision has certainly been conserved.

Mr. STERLING. You spoke very commendatorily of the supervision of insurance in Massachusetts. Did I understand you correctly?

Mr. RHODES. Yes.

Mr. STERLING. Do you consider the Massachusetts statute on that as among the very best State statutes in the Union?

Mr. RHODES. No, sir; I do not. There is much that is obsolete, much that is unnecessary, in the insurance code of Massachusetts. That is true of all the older States of the Union. I think that the essential parts of this bill could be condensed in a very few pages and the interests of the public just as fully protected as they would be under this bill.

Mr. PARKER. Would you be willing to mark what you think are the essential parts of the bill and hand them to the committee? [Laughter.]

Mr. RHODES. I am rather modest, and I am inclined to modesty. It would be a pretty big task. But I would be very glad to do what I could to aid in such a work.

Mr. GILLET. If that should be reduced to fully one-third or more, you would not consider that a model bill as it stands now, would you?

Mr. RHODES. I say this has in it the material for making a model bill.

Mr. GILLET. But you would not put it together in the way it is?

Mr. RHODES. No, sir.

Mr. BRANTLEY. I understand the suggestion of Doctor Fricke is that a commission be appointed to get up a bill by next winter. I believe that was his suggestion?

Mr. RHODES. I could not join, I think, in that suggestion. I believe that if the Committee on the Judiciary of the House of Representatives deems the bill worthy of its consideration it could report a bill which would contain all that was essential in this matter.

Mr. BRANTLEY. Do you not think the committee would be entitled to the benefit of your knowledge as to what points of the bill are essential?

Mr. RHODES. I would gladly offer my services to the committee or any member that might desire them, freely and unreservedly.

Mr. ALEXANDER. Then after you had presented such a bill would there be any need of it? [Laughter.]

Mr. RHODES. I am inclined to think there is need of an insurance code for the District. How far that code should go, I am not prepared to say.

Mr. ALEXANDER. Then your bill would simply be a simple, plain code for the use of the District of Columbia?

Mr. RHODES. Precisely.

Mr. ALEXANDER. And nothing else?

Mr. RHODES. Nothing else.

Mr. ALEXANDER. And that would not really be necessary so long as Mr. Drake lived?

Mr. RHODES. No, sir; and was commissioner. [Laughter.]

Mr. PARKER. Does the committee desire that Mr. Rhodes should hand in such a short draft, or not? He says he will do it if he is asked to do it.

I will take the liberty myself to ask you, Mr. Rhodes, to send in, if you will, a memorandum of what you consider the essential parts of this bill, so that the committee will be advised upon that, because that would avoid a great deal of difficulty to us in going over the bill.

Mr. AMES. I should like to call upon Major Ashbrook, of the Provident Life and Trust Company, of Philadelphia, to speak.

Mr. PARKER. We shall be glad to hear him.

STATEMENT OF MAJ. JOSEPH ASHBROOK, VICE-PRESIDENT OF THE PROVIDENT LIFE AND TRUST COMPANY, OF PHILADELPHIA, PA.

Mr. ASHBROOK. Mr. Chairman and gentlemen, I inferred from the notice which the secretary of the committee was good enough to send to me that the speakers were expected or requested to confine

themselves to specific points in the bill, and not to attempt a general discussion of it.

Mr. PARKER. It did not mean as much as that.

Mr. ASHBROOK. I had prepared myself particularly to discuss one or two of the sections, and at some length, and then to follow that up with certain amendments which I had hoped would commend themselves to the committee.

Before addressing myself to that I would like to ask your indulgence to one or two general remarks. The deplorable condition of things brought to light by the Armstrong committee in New York was not the result of absence of legislation on the subject of life insurance. It is not in the power of legislation to compel an economical and safe management of life insurance. It may contribute to that end, but it is a great fallacy to suppose that it alone can accomplish that end. I do not know whether it would be a rash assertion to say that some of the conditions that have arisen in life insurance in recent years have come as a result of a blind reliance on State supervision. The unfortunate and altogether mistaken apprehension existed in the minds of very many people that the hall-mark placed upon a company by a department of insurance was almost literally a guaranty by the State of the solvency and good management of that company.

The investigation in New York disclosed that there had been great extravagance in management. It revealed, however, that the companies against which the most serious charges of mismanagement had been made were perfectly safe and solvent. To my mind it is perfectly remarkable that in the midst of this wonderful investigation there should come from every quarter, from every investigating committee, the assertion, made in the most positive terms, that the system was absolutely safe and that nobody need have any fear concerning it.

The things to be censured are, first, wasteful extravagance incident to the too rapid expansion of the business, and in the next place, certain irregularities in the financial operations of the company. I deplore these irregularities and would not for one instant condone them, for no irregularity, although it may serve an innocent purpose, can for one instant be condoned. The financial management of any great institution, particularly an institution like a life insurance company charged with a sacred trust, should be like Caesar's wife, above suspicion.

Those irregularities, gentlemen, have resulted in what? In any very serious loss to the companies? When the final summing up comes, it may be found that the financial management of these companies that have come under the severest censure has been, on the whole, rather fortunate for the members of those companies. Some methods that have been employed can not, of course, be defended.

Whence came this extravagance in life insurance management? In my deliberate judgment, the result of long reflection and abundant opportunity for observation, the great extravagance in life insurance, involving the waste of tens of millions of dollars of money, grew out of a false method adopted by many companies respecting the payment of dividends. I refer to the method known as "deferred dividends."

A man gives me \$20 to buy something for him, the price of which is uncertain, and I come back to him and say, "It has cost \$15." He replies, "It does not make any difference about the change. You will have a good many errands of mine to do in the year, and at the end of a year or five years you can return to me such change as you may have in your possession. I do not care to be bothered with the change now."

The premiums which you see in the publications of the companies represent the estimated cost at the respective ages of the particular kinds of insurance, based upon a very liberal assumption as to the number of deaths that may occur, on a very conservative assumption as to the rates of interest that will be earned on the money, and on an assumption respecting the expense of conducting the business. At the end of the year the company has found out whether its death losses are greater or less than the number assumed. If it is found that they are less, too much money has been taken to pay the death losses of that year. They find they have made more interest on their money than they had estimated. They do not need the excess. They find that, as the result of economy, the provision for expenses has not all been expended. Now, the difference from those three sources is the difference between the estimated cost (the premium) and the actual cost as shown by experience. It is change. Obviously, that change having been scientifically ascertained, it should be handed back to the policy holder; and so it was for many years, and during that time there existed the warmest possible kind of competition between the companies as to which should furnish life insurance that was perfectly safe and at the lowest possible cost. What indicated the cost? The change that was handed back; the difference between premium charged and the change received indicated the net cost. Policy holders compared the net cost in different companies. Competition followed on those lines. The companies had every motive in the world to practice economy and return every penny, because in that way more than in any other way a company commended itself to the approbation of policy holders and secured new business.

There arose about twenty years ago a system called "tontine." If by some happy accident the word had been inverted and had been called "tinton," it would have been equally significant. As it was not easily comprehended, I suppose it served a useful purpose. Under the "tontine" system a man left his dividends in the hands of the company for a series of years. If he failed to pay the premium, the policy and accumulated dividends were forfeited. If he died during the period and had paid his premiums up to that time, he failed to receive his share of the accumulated forfeitures. If he survived and paid his premium, he got his share of the "tontine" fund. That was a little too rank. It was succeeded by what was called "semitontine," and if I do not run the risk of being accused of falling into merriment, I would say the name signified that it was just half as bad as "tontine." Under that system the policy itself was not forfeited, but the dividend was, in case a man died or lapsed his policy. Usually the period selected was twenty years. The expression "semitontine" became unpopular, and there was substituted other designations, "deferred dividends," "accumulated dividends," etc.

Now, in a company issuing life insurance at the rate of \$30,000,000 or \$40,000,000, or, say, \$150,000,000 or \$200,000,000 a year, this pool increased and became very large, and a few years ago the aggregate pool of three companies was approximately \$200,000,000.

Was there any accountability respecting this vast accumulation of so-called "surplus?" None at all. Ask any insurance commissioner present. If an insurance commissioner had arrogated to himself the right to make any inquiry about it he would have been told in diplomatic terms that it was none of his business. There was no provision in the law as to that money. Was it charged as a liability against the company? Not at all. It was held loosely, and when it became necessary to resort to extraordinary expenses by way of making the business large, \$1,000,000 or \$10,000,000 or \$20,000,000 of this fund was appropriated for that purpose. Commissions for obtaining business were advanced inordinately. I am ashamed to say it, but these commissions, augmented by bonuses, made it possible for agents in many cases to deliver policies with practically no charge for first premium. I blush to acknowledge such an outrage in connection with a business that, by every token, should be regarded as a sacred trust.

The principal companies were seized with a mania as to which should be the biggest, and there came to be erected as a standard of life insurance—and in course of time the public accepted that standard—the idea that the biggest was the best. The question would be asked by an insurer, "How big is your company?" "Not so big as the other company." "I prefer the biggest company."

Men were ambitious that the flag of their company should follow the sun in its course around the globe. There should be no land unvisited by the American missionary of life insurance. Companies that had one hundred and fifty millions or two hundred millions of insurance in force, with an asset accumulation of fifty or seventy-five million dollars, were spoken of patronizingly as "small companies." This wild extravagance, it is asserted, was primarily the result of such companies having in their possession vast amounts of so-called "surplus," respecting which they were held to no accountability.

That was the first condition that made the thing possible, and the second condition—that you know as much about as I—was that curious apathy which men exhibit concerning the things that concern them intimately, if they happen to be one of a large group. The man that watches his own individual business with an argus eye becomes altogether indifferent if he is a stockholder in a large corporation. But if there had not existed this apathy, and policy holders had wanted to inquire, how could they get information respecting the proper and economical management? The curtain was rung down for twenty years. Twenty years from now you can find out whether your company has been economically managed or not.

There, gentlemen, is your explanation. I challenge any successful contradiction of the statement. There is your explanation of that terrible reign of extravagance in life insurance; and probably all the other evils that have disfigured and defaced the system in the last fifteen years have come as a sequel to this extravagance.

MR. ALEXANDER. May I ask the gentleman a question right there?

MR. ASHBROOK. Certainly.

Mr. ALEXANDER. Does the Armstrong bill require in future the elimination of those abuses and irregularities?

Mr. ASHBROOK. I will meet your question, if you will pardon me, with a direct answer in a moment.

Mr. ALEXANDER. Go ahead, then.

Mr. ASHBROOK. I would be very much pained if in the discussion of this bill I should exceed the proper limit of time that might be accorded to one speaker, and if I exceed that limit I wish you would remind me of it.

Mr. PARKER. I think I can express the opinion of the committee when I say you can not exceed your limit of time.

Mr. ASHBROOK. Thank you. As to the remedy, this system of deferred dividends should be absolutely prohibited by law and thrown out as an accursed thing. That is the remedy, and there should be required what we call technically an annual accounting—that the company every year shall show what has been the cost for that year, and shall set aside to each policy holder his share of the surplus for the year, and, if it is desired, there should be furnished to the commissioners of the different States a statement of the method by which that division has been arrived at. There are various ways in which that change can be handed back. Most people would prefer to receive it annually in money, which could be used in part payment of current premium. Respecting policies now on the deferred dividend plan, which the companies probably could not legally be required to change, the law could provide that the annual surplus belonging to a policy holder of this class should be determined and the policy holder notified. The amount thus apportioned should be charged against the company as a definite liability; the companies should no longer be permitted to carry it as a surplus.

If there had been no deferred-dividend system, as I said before Senator Armstrong at a hearing in Albany—if there had been no deferred-dividend system there would have been no Armstrong committee, no necessity for that committee.

There is a large section of life insurance, gentlemen, bear in mind, against which you dare not direct the finger of criticism or censure: a large section that has been faithful to its obligations, that has maintained the highest standard of security, and has furnished life insurance at a very low net cost, a cost that would have been still lower if they had not had to compete with conditions so abnormal. But notwithstanding those conditions, they have maintained the highest standard of security and furnished life insurance at a very low net cost. Many of these companies were required to furnish detailed reports to the Armstrong committee that exhibited in fullest detail their business methods and financial condition, and if you will read the report of that committee you will find words of approbation for those companies, and not words of censure.

Let there be an annual accounting. To refer again to my kindergarten illustration of a moment ago: I am commissioned to buy something which may cost \$20. I make the purchase and return \$5 change. Some one else is entrusted with a similar commission and returns \$4 only. I would be preferred to him. But a third person, acting under a similar commission, returns \$6, and he is preferred to me. Naturally competition would arise among these three persons

to return the most change. Companies which pay annual dividends give to their policy holders, intelligent and unintelligent, the means of knowing at what cost the business is being conducted, and the natural competition among companies results in a comparison between different companies. A company failing to compare favorably would fall behind in the race and therefore would have the most powerful stimulus to a skillful and economical management.

Now, what is the necessity for any legislation on life insurance? While there have grown up abuses, there have simultaneously grown up very great improvements in the development of life insurance, entirely independently of the requirement of law. The policy contract has been greatly liberalized. Indeed, competition was so great among the companies that it was a serious question whether they were not granting too much and were not too liberal. That is the effect of competition.

I think I have made it clear that with the adoption of annual dividend legislation will not be needed to prevent the extravagance of life insurance companies. In New York, however—answering your question now, sir [addressing Mr. Alexander]—they have adopted a method which I think is very unwise. I think it may accomplish a very great deal of good in the end, but I think the compulsory adoption of it is tyrannous and is going to work injury. They have put a limit on the expense. Companies must not pay any more for getting business than the amount of the loading for expense on the policies the first year and the amount of gain in the death rate according to the select and ultimate plan. The cost of putting a policy on the books must be confined to that, and thereafter the general expenses of the company, including everything, must not exceed the general loading on the policy.

That requirement is put upon the companies in a very arbitrary manner, and the companies have a right to complain of it. If the legislature of New York discovered that the abuses in their own companies could be remedied only by the most drastic measures, they were at liberty to apply such remedy to their companies as they thought proper; but in their wisdom they have applied that particular remedy to all the companies that do business in that State, in that respect violating the established principle of State comity, thereby doing what will bring bitter fruit to them, perhaps, in the future in the way of retaliatory legislation in other States. The severe provisions of the New York law respecting the limitation of expenses are applicable to other State companies. Therefore there is no need for Congress or the legislature of any State to adopt similar provisions. New York is a very rich field for the business, and all companies go there and are as much subject to this extraordinary law as if it had been adopted by their own States. The law is experimental, and the principle upon which it is based is far from being acknowledged and accepted by the ablest underwriters. The law also was adopted to meet an emergency in New York and but for that emergency would not have been proposed. It would at least be unwise for other States to attempt to regulate expenses by copying this law. Better wait until it is tested; better still, pass no law at all on the subject and leave the matter to be regulated by the competition which would follow annual dividends.

As to the financial security of life insurance companies, a standard for determining the safe and solvent condition is established by law in the various States and is pretty nearly uniform throughout the country. The State assumes the right to select a table of mortality, and it imposes that table upon the companies. It selects a rate of interest which, in its judgment, is conservative, and the companies must conform to that. The only discretion left with the companies is the amount of "loading"—or provision for the expense of conducting the business—which they may add to their premium.

The cost of insurance naturally increases as a man grows older. To pay an increased amount of premium each year, in accordance with that fact, would be impracticable, because there would come a time when the cost would be prohibitive. Therefore the cost of the insurance for as long a time as the policy is to run is calculated, and this is converted into a yearly premium of uniform amount for the whole period. This involves an accumulation of money in the hands of the company, as for a considerable time the cost of the insurance is not so great as the premium. This accumulation is according to a scientific method, which the law recognizes and enforces. The amount of this accumulation is the liability of the company. This liability is calculated each year by the company, but it is also calculated by the insurance commissioner. Against this liability the company must show assets of at least equal amount. The greatest publicity is required respecting it. The list of assets must be published, showing not only their par value, but their market value and their cost value. If money is loaned upon collateral security, a description of the collateral is specified in every published list. If you go to many of the departments you will find there lists of all the mortgage loans of the companies, perhaps in one company aggregating fifteen or twenty million dollars; every detail respecting them. Under the present law it seems we have almost every guarantee respecting the security of companies.

I say to you here seriously, gentlemen, forbid deferred dividends, and competition will accomplish the rest. A few months ago it was reported to me that Senator Armstrong had made the following expression (and in my own mind I was awarding to him the greatest praise for condensing so much wisdom in a limited space, but from what I have learned since I am led to believe that he was not the father of the expression): "What we want in the present case is a maximum of publicity, a minimum of legislation, and competition will do the rest." Let the business be done in glass houses; no honestly managed company resents the severest public scrutiny.

Now, after this brief but general introduction, I want to say this: What about this bill? The country is in a state of panic. The people are perfectly unreasonable. The yellow journals got hold of this matter of the Armstrong investigation and have inflamed the minds of the people to such an extent that they think life insurance throughout is a sink of iniquity, and that no honest man is connected with it, and that the most stringent and cruel measures are necessary to protect the policy holders. It is quite probable that, as a result of this excitement, very unwise legislation may be proposed all over the country next January, and it was thought possible that if Congress, after careful deliberation, should adopt an insurance

code, plain and simple and brief, covering all the points that need to be covered, and if that code should have the indorsement of the convention of insurance commissioners that will meet in this city in September—and that it will have this indorsement is somewhat foreshadowed from the fact that this committee of fifteen gave their general approbation to this bill—if that bill should be adopted by Congress and get the approval of the convention of insurance superintendents, there would not be a certainty, but there would be a very strong probability that it would be adopted by most of the States of the country, and a great deal of trouble would be saved to the life insurance companies and great injury to life insurance interests would be prevented.

As to the District of Columbia, I do not know that anybody is particularly concerned about the District of Columbia. We are represented here and do a very good business here, and we will be very glad to continue and intend to continue here; but if under peculiar circumstances we had to withdraw from the District of Columbia we would not regard that as a very serious contingency.

There is some inquiry made as to what is back of the bill, and if there is anything back of it, there is very bad faith on the part of Mr. Ames and other gentlemen, and I do not think anybody would attribute bad faith to Mr. Ames. I heard his address in Chicago, and he said it was simply to set up here a model that would be likely to be adopted throughout the country, which would secure more uniformity and better legislation than could otherwise be secured in many parts of the country. In States where there are no local companies life insurance might not be very well understood and an imperfect law might be passed which would cause great trouble.

So much in regard to the law. I had hoped that this discussion would take the form of a discussion in the order of the sections of the bill. The previous speakers have spoken of the bill, but their remarks have been spread over such a large surface that even with the trained attention of a life insurance expert it would be difficult to follow them. It would be necessary to have the text of the bill before one and follow it line by line.

If we are done with the general discussion of the bill, if the suggestion is not deemed impertinent, Mr. Chairman, I think we would save a great amount of time and understand each other better if we followed the practice of taking up the bill item by item; and if you so permit, when we come to a section farther on, I will ask your indulgence to speak concerning it.

Mr. PARKER. Would it be convenient to you to direct attention yourself consecutively to sections of the bill that you think need amendment?

I propose to suggest certain amendments to that statutory policy, but before that I want to say that I do not think there is any need of a uniform policy whatever. It has been argued that because the fire companies have a statutory uniform policy, therefore the life insurance companies should have; but the conditions of the two businesses are so entirely different that the example of the fire companies has no force whatever.

What is the purpose in having a statutory policy? As I gather from a gentleman who is very much interested in this part of the

bill, the object is to prevent the issue of deceptive policies. There are some companies that have as many as two to three hundred policies. I would not like to claim for myself any special intelligence, but I think that I have a fair understanding of my business, and I have very frequently met with policies that required the utmost attention on my part to understand what they were. They were framed in such a way as to make it possible to misrepresent them, and that they have been misrepresented is matter of common knowledge.

Mr. ALEXANDER. Mr. Chairman, it is now twenty minutes to 5 o'clock. Supposing Mr. Ashbrook continues his argument in the next twenty minutes in a generic manner, as to whether we need such a bill, covering the questions heretofore mentioned. I know they do not need to be repeated. He has given the reason that has been given several times before for this legislation—that it might serve as a sort of a signboard for State legislation—but perhaps he may have some reasons in mind other than that which might possibly go in, as to having a code of insurance that is to apply only in this District, where you may judge from what Mr. Rhodes said they do not need very much, and do not need it at all now.

Mr. ASHBROOK. I think that is a rather strong conclusion from Mr. Rhodes's remarks. He perhaps intimated that they might get along without any change in the law.

Mr. ALEXANDER. Well, put it that way, then.

Mr. ASHBROOK. But that it might be better to have a larger body of well-digested law here. I have not made a study of the present code of the District of Columbia, but I would suppose that it is, in contrast with the laws of most States, quite imperfect, and that the code of this District should be improved, I should think, would be a desirable end in itself. I have had an experience of a great many years in honorable connection with the several legislatures. I have had to oppose I do not know how many exceedingly vicious bills—some of them prompted by ignorance and some of them prompted by an unworthy motive—and I have had very great difficulty, indeed, in opposing bills—bills that would have resulted in very great injury to the business, bills imposing very foolish and onerous requirements. If we could have a body of laws which would carry with them the weight of authority—not legal, but moral, because those laws had been adopted by the General Government after careful deliberation and for the purpose of setting a high standard, and particularly if the administration of those laws was committed to one of the great Departments of the General Government—it is very probable the laws would be generally adopted throughout the country. So much for the direct good. Equally important would be the prevention of hasty legislation and the passage of laws conflicting with those of other States. I think I state the experience of nearly all the insurance officials in the United States when I say that they lose flesh during the two or three months in which the legislatures are in session.

Mr. BRANTLEY. Would that result follow?

Mr. ASHBROOK. This thing is an experiment, and if it is an experiment from which in the trial no harm could come, I think it would be worth while trying the experiment. I think the District of Columbia would have an admirable insurance department, and I do not

think that the expenses of that department would be very greatly increased over what they are now, because these things that were referred to as examinations, in very many cases, would pay for themselves. During the experimental period in which the thing was being tested I do not think that the expenses would be very great. I think perhaps it would be a harmless experiment, and it might result in very great good to the insurance of the country.

Mr. ALEXANDER. You would not place very great emphasis upon the examination made of the various companies by the United States, or by the officials representing the United States?

Mr. ASHBROOK. There are several insurance superintendents who are my personal friends, and for whom I have very great respect, and I have also very great admiration for their efficiency as insurance superintendents, but from my knowledge of the way insurance superintendents are selected the country over, and from their brief continuance in office, I think it is highly probable that this insurance department of the District of Columbia would be very much more ably managed. That is my opinion. I think there is very strong reason for that opinion, and I think that would be the opinion of the insurance officials themselves.

Mr. ALEXANDER. That is hardly borne out, is it, by the example of the examination of our national banks? Do you regard that as very much superior to the State supervision?

Mr. ASHBROOK. I have not knowledge of that matter sufficient for my opinion to be of any value.

Mr. STERLING (addressing Mr. Alexander). Would you think it was borne out in that experience?

Mr. ALEXANDER. Not on the national bank examination. That we always find out when the national banks fail.

Mr. ASHBROOK. I would just remark that the conditions are very different in a bank and an insurance company. A personal inspection and frequent inspection are not so necessary to determine the condition of a company as to determine the condition of a bank. If the insurance commissioner has before him the assets of the company and a complete record as to their liabilities his function is not a difficult one under the circumstances. I ought to say in justice to myself that I did not rise to discuss particularly the features of the bill, the general features of the bill, but to discuss the section in regard to the statutory policy.

Mr. PARKER. I should be very glad if you would go ahead in your own way. I would say that I notice that in the single suggestion that you make of striking out the statutory policy you strike out some thirty or forty pages of the bill, and the shortening of the bill is of so great importance in getting a bill through Congress that it is of the very first importance.

Mr. ASHBROOK. I was about to consider that when this gentleman honored me by asking me a question.

I do not think that there is any need of a statutory policy, and if any such provision is made in the law it should be made with very great care. The statutory policy requires that the dividend shall be applied in four different ways.

As a matter of fact, not as a matter of speculation, in 80 or 90 per cent of the payment of death losses the policy is of such small

amount that by experience there is only one way in which the beneficiary wants the money applied, and that is to receive it in a lump sum. Certainly 80 per cent of the policies issued are under \$5,000. One of the provisions of the bill is that that money shall remain in the hands of the company during the lifetime of the beneficiary at a rate of interest to be agreed upon, and the principal to be paid over to her heirs at her death. Now, suppose 3 per cent was the amount named, and I doubt very much whether any company would be rash enough, for a long period of thirty or forty years, to guarantee more than 3 per cent. She could not live on it, and would have to invade the principal, as is always done. Five thousand dollars would yield an annual installment of \$250 for twenty years. She could not live on \$250 and would have to invade the principal part of it. The other provision is that after she had taken the \$250 there should be an annuity continued to her as long as she should live. Then there is another provision that if a man did not want to use his dividend he could leave it in the hands of the company as a cash deposit, as in the case of a savings bank, the company agreeing to pay him interest on it, and just when he pleased let him draw it out. That is a function not contemplated in the management of a life insurance company. The company would have to guarantee the interest and the safety of the investment, and would have no compensation for the labor and the responsibility of its trust continued over an indefinite period. That is very rarely required. If, in an exceptional instance, a man wanted to leave his money in the hands of the company for a year or two the company would probably accommodate him.

Now, my simple suggestion is that with respect to the ordinary life policy—and the same suggestion would apply to limited-payment life, endowment, and term—there should be a life policy A and a life policy B. The life policy A should correspond to B in all particulars except that the money should be paid in a lump sum. When a man is insuring, if he wants B he can ask for B. Very few people would ask for B. The man receiving A would have a policy that he could easily understand. The company would not be put to the labor of filling in all these details as to the amount of installments and rate of interest and what not in 80 per cent of which these provisions would be entirely unnecessary. Is there any need of a standard?

I think every life insurance actuary in the room will say that the provisions of that bill as to the manner in which dividends can be applied would require very careful consideration in order to understand.

Mr. AMES. If I may be permitted to interrupt the speaker; the reason for the standard forms in this bill—I think Mr. O'Brien will bear me out—was because they were adopted by the Armstrong committee, and they were inserted for the purpose of uniformity. There is a provision on page 80 which differs from the Armstrong bill, permitting any other kind of a policy.

Mr. ASHBROOK. Any other kind of a policy, but not any other form in the kinds enumerated. You have referred to that before, and I have looked at the bill, and I do not like to correct you, but I think it is any other kind of insurance. The kinds are ordinary life, limited-payment life, endowment, and term policies, and the forms are prescribed for them.

A BYSTANDER. Are there any other kinds?

Mr. ASHBROOK. Now, if there should be any other kinds the application may be made to the commissioner to obtain the permission, but not to vary these other forms.

Mr. AMES. There is another provision; there is stricken out "or any other policy."

Mr. ASHBROOK. I would suggest to Mr. Ames if that is struck out it nullifies entirely the previous regulation. If the company did not wish to comply with the law as to the statutory policy it had only to apply to the commissioner to obtain his permission to issue any kind of a policy that it wished to issue.

Mr. AMES. I think that is about what I have stated, that these forms were to serve as standards for legislation in other States.

Mr. ASHBROOK. You are probably aware that the form in New York is not imposed upon other States.

Mr. AMES. In reference to this code, it would serve as a model for the States. We wanted to have a full code so that any other State seeking legislation should have the advantage of whatever legislation there was.

Mr. ASHBROOK. In my opinion all that could be covered by requiring that the commissioner should be furnished with any new form whatever, whether those be many or few; and if, in the judgment of the commissioner those forms were deceptive or not clear, I think a notice to the company would have a very decided effect. If it did not produce that effect I think a comment in the next following annual report of the commissioner, which would be perfectly proper, would be a sufficient corrective. I think that a policy should be as simple in terms as possible, and I wish that I had a policy of every company doing business in the United States of the plans enumerated in the bill that I might pass them around this table and ask you gentlemen to read them over and observe how exceedingly simple they are in their forms. There is no language employed there that the least instructed mind could not understand. They are exceedingly simple and the conditions in those policies are extremely liberal.

I differ with some gentlemen whose opinions I am bound to respect, but I think that the limitation not only to form of policy, but also to what kinds of insurance may be granted, is very unwise. Twenty years ago if this statutory policy had been adopted it would not have permitted these options that are spoken of here. Those options have been a development. Whatever the form of the policy, or whatever the amount, it was paid into the hands of the wife, and she immediately had to invest possibly \$20,000 or \$30,000 or \$40,000, and however intelligent she might have been, she was not qualified for that duty, and loss possibly followed. There was devised the installment policy. Suppose the policy was for \$20,000; there would be paid to the widow an income of possibly \$1,200 a year, possibly a little more than that, for twenty years, when it would expire. If there were any apprehension lest she would be without support at that time, there could be attached to it an annuity, continuing the payment as long as she lived. All this has been evolved by the companies. Competition has brought that out. Companies vie with each other in the cost of insurance and the adaptation of life insurance to the needs of the insurer. This puts a stop on that. If the company originates a new and exceedingly wise plan, instead of

submitting it to the public it has to submit it to the commissioner, and I think very likely it might have to be submitted finally to the commissioners of all the States. If this bill becomes a standard law, I mean if it were adopted by all the States, then if the company wanted to adopt a new plan of insurance they would have to go to every commissioner and ask his judgment on it. The purpose of the statutory policy is to secure simplicity and to avoid imposition on the public by putting out forms of insurance respecting which deceptive statements could not be easily made and putting out those that could be easily understood. That is the only good purpose of a standard form of policy.

Mr. PARKER. Might I ask one question? You said the most important thing was to prevent deferred dividends. Was it your idea that any proper law should prevent deferred dividends only with local companies, or should prevent any company doing business in the District which should have the system of deferred dividends?

Mr. ASHBROOK. Mr. Chairman, that is practically a closed question, for the reason that, with exceptions so few that I need not consider them, every company is doing business in New York. It is the great field of life insurance of the country and the great commercial metropolis and a company is not likely to retire from New York; and if we continue in the State of New York we are made subject to a law which forbids absolutely deferred dividends in the future. Dividends must be declared.

Mr. PARKER. It is not necessary here?

Mr. ASHBROOK. Yes, sir; it is not necessary here at all, and I made this remark not in discussing this bill, but in explaining why I do not think any legislation is necessary.

Mr. PARKER. If legislation is adopted here, would you make that legislation to prevent deferred dividends only as to home companies, or to prevent only companies which had deferred dividends from doing business here?

Mr. ASHBROOK. I am not a lawyer, but I venture the remark that you gentlemen who are lawyers will better understand than I that it is a serious matter for a State to undertake to direct the details of the affairs of a corporation of a sister State, and I think it is unwise to enact laws applicable to companies of other States, except only such laws as insure safety and solvency. I do not think it should undertake to legislate in detail for companies created by another Commonwealth.

Mr. PARKER. I beg your pardon for interrupting you.

Mr. ASHBROOK. I was about to apologize to you gentlemen—

Mr. PARKER. You have not concluded?

Mr. ASHBROOK. I thought that I had exhausted your patience.

Mr. PARKER. Not at all. We would like any point that you have.

Mr. ASHBROOK. I have prepared a brief here, in which I have urged the reasons for the other changes which I would propose, and I think perhaps you would better comprehend them if I had the pleasure of putting a copy in the hands of each of you.

Mr. PARKER. If you will put it in the hands of the stenographer it will be printed.

Mr. ASHBROOK. I will do that, and I will conclude without burdening you further by saying—and I fear it is perhaps a lame apol-

ogy—that my interest in this matter is so great that it has betrayed me into rather more extended remarks than I had intended, and I feel that I owe you an apology.

Mr. CRAIG. Might I ask Mr. Ashbrook one question before you close, Mr. Chairman?

Mr. PARKER. Yes.

Mr. CRAIG. In condemning tontine insurance and the extravagance of the company which was developed in the Armstrong investigation, do you attribute those scandals to the extravagance or to the deferred dividends?

Mr. ASHBROOK. If you will pardon me, I did not catch your question.

Mr. CRAIG. I am not interested in deferred dividends.

Mr. ASHBROOK. No.

Mr. CRAIG. In your opening remarks I understood you to say that the foundation of the evil was deferred dividends, and from that crept on the extravagance in some of the companies.

Mr. ASHBROOK. No, sir; I did not say that. I said that deferred dividends afforded the opportunity for extravagance, and that the other abuses followed naturally in the train. I think the system of deferred dividends was the original source of the trouble.

Mr. CRAIG. The question that I would like to ask is, If the expenses were limited according to the present New York law, could any of the scandals which were developed have happened, even under a deferred-dividend plan?

Mr. ASHBROOK. That is a very important question. My answer to that is that the evils could not have occurred to the same extent. I think the system would have been open to very grave objection. The evils could not have occurred to the same extent, for the very obvious reason that if the company was restricted in its expenses it would not have spent so much money. They have been practically unrestricted up to this time, and they have had unlimited deferred-dividend funds which they could divert, and they were not dependent on the ordinary loading upon their policies. If a company for a long period of years should greatly exceed its loading it would probably run into trouble. If the limitation of expenses which is now imposed by the Armstrong bill had been imposed twenty years ago—and it was about that time that the semitontine had its origin—we could have had a different history. Does that answer your question?

Mr. CRAIG. Yes.

Mr. STERLING. As I understand you, the limitation is simply to this extent, that they can not go beyond the loading?

Mr. ASHBROOK. Yes.

Mr. STERLING. They must confine their expenses of securing the policy to the loading; and are they limited to the amount of loading, under the law?

Mr. ASHBROOK. They are not limited under the law to any loading, but they are practically limited. If a company were to increase its rates of premium it would put itself at a very great disadvantage in competition. It would find it extremely difficult to get business. It is not a legal, but it is a practical prohibition. There have been a great many arbitrary things done by the Armstrong committee—inde defensible things, I think, some of them—but they stopped short

of prescribing the amount of the loading. The loading varies very much, according to the judgment of the company, but there is no legal prohibition. But I think that I am justified in saying that there is a practical prohibition, that a company would not dare to put up their rates of premium.

Mr. PARKER. If there are no further questions to be put to Mr. Ashbrook, the committee will stand adjourned until 10 o'clock to-morrow morning.

Thereupon, at 5 o'clock p. m., the committee adjourned until 10 o'clock to-morrow, Tuesday, May 15, 1906.

PROPOSED AMENDMENTS SUBMITTED BY MR. AMES.

- Page 1, line 5, strike out the word "insurance."
- Page 1, line 12, insert, after the word "or," "if any."
- Page 2, line 6, put semicolon after the word "Columbia."
- Page 2, line 17, insert, after the word "purpose," "required or."
- Page 3, line 6, add, after the word "act," "which are not by their terms limited to domestic companies."
- Page 5, line 4, strike out, after the word "Department," "of such."
- Page 5, line 5, strike out the words "device as the President may approve."
- Page 5, line 16, strike out, after "it" the word "expedient" and insert in place thereof "in the interest of the policy holders."
- Page 5, line 19, strike out, after "it," the word "expedient" and insert in place thereof "in the interest of the policy holders."
- Page 5, line 23, strike out, after "any," the word "other."
- Page 5, line 24, insert, after the word "company," "doing business in such State and."
- Page 6, line 4, strike out, after "any," the word "other."
- Page 6, line 9, strike out, after "any," the word "other."
- Page 8, line 4, insert, after the word "statements," "of assets and liabilities, receipts and disbursements."
- Page 8, line 19, insert, after the word "any," "governmental."
- Page 8, line 20, strike out the words "issued by the superintendent."
- Page 9, line 3, insert, after the word "mentioned," "and except for loans upon policies."
- Page 10, line 23, strike out the words "a statement separately showing the," after the word "expenses."
- Page 10, line 24, strike out entire line.
- Page 10, line 25, strike out entire line.
- Page 11, line 1, strike out entire line.
- Page 11, line 2, strike out the words "calculation has been made."
- Page 11, line 2, insert, after the word "of," "premiums and of."
- Page 12, line 6, insert, after the word "cash," "in office and in bank."
- Page 14, line 24, strike out the word "fifteenth" and insert in place thereof "first."
- Page 14, line 25, strike out the word "January" and insert in place thereof "March."
- Page 15, line 4, strike out the word "March" and insert in place thereof "April."
- Page 15, line 16, strike out, after the word "on," "existing."
- Page 15, line 16, insert, after the word "policies," "issued prior to the first day of January, 1907."
- Page 15, line 18, strike out the word "hereafter."
- Page 15, line 18, insert, after the word "issued," "after the 31st day of December."
- Page 15, line 24, strike out, after the word "investments," "approved by the commissioner."
- Page 16, line 4, strike out, after the word "policies," the word "purporting," and insert in place thereof "appearing clearly on their face."
- Page 16, line 5, insert, after the word "valued," "during their first year only."

Page 16, insert the following paragraph after the word "valuation," in line 11:
 "The insurance commissioner may vary the standards of interest and mortality in the case of corporations from foreign countries as to contracts issued by such corporations in other countries than the United States; and in particular cases of invalid lives and other extra hazards, and value policies in groups, use approximate averages for fractions of a year and otherwise, and accept the valuation of the department of insurance of any other State or country if made upon the basis and according to the standards herein required in place of the valuation herein required if the insurance officer of such State or country accepts as sufficient and valid for all purposes the certificate of valuation of the superintendent of insurance of this State."

Page 16, line 21, strike out the word "immediately" and insert in place thereof the word "directly."

Page 17, line 6, insert, after the word "or," "at least."

Page 17, line 12, strike out the words "and shall."

Page 17, line 13, strike out the entire line.

Page 21, line 9, strike out the words "this section" and insert in place thereof "the law, provided, however, that this section shall not apply to companies organized under section 24 of this act."

Page 21, line 11, strike out, after the word "company," "exclusive of its capital."

Page 21, line 12, insert, after the word "liabilities," "exclusive of its capital."

Page 23, line 6, insert, after the word "companies," "not exceeding \$30 per \$1,000,000 of its insurance or fraction thereof for the first \$10,000,000 of insurance, and not exceeding \$10 for each million of insurance in excess of that amount."

Page 23, line 7, strike out, after the word "valued," "for receiving and filing certificates of."

Page 23, line 8, strike out entire line.

Page 23, line 9, strike out "Territory, fifty dollars."

Page 26, line 21, strike out entire line.

Page 26, line 22, strike out entire line.

Page 26, line 23, strike out entire line.

Page 31, line 9, strike out the words "and no."

Page 31, line 10, strike out entire line.

Page 31, line 11, strike out the words "to issue any participating policies."

Page 31, line 14, strike out the words "as provided in this chapter" and insert in place thereof "This section shall not apply to annuities or to paid-up or temporary and pure endowment insurance issued or granted in exchange for capital or surrendered policies."

Page 31, line 15, strike out the word "capital" and insert "assets."

Page 31, line 18, insert, after the word "all," "in other than life companies."

Page 31, line 18, strike out the word "capital" and insert "assets."

Page 32, line 12, strike out the words "of not less than five per."

Page 32, line 13, strike out the words "centum per annum."

Page 32, line 13, strike out the word "two" and insert "three."

Page 32, line 19, strike out the word "capital" and insert "assets."

Page 32, line 21, strike out the word "capital" and insert "assets."

Page 33 strike out lines 1, 2, 3, 4, and 5 and insert in place thereof "Eighth. Any life insurance company may lend a sum not exceeding the lawful reserve which it holds upon any policy on the pledge to it of such policy and its accumulations as collateral security."

Page 33 strike out lines 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, and 17 and insert in place thereof "Ninth. Any domestic company doing business in foreign countries may invest the funds required to meet its obligations incurred in such foreign countries and in conformity to the laws thereof in the same kind of securities in such foreign countries that such corporations is by law allowed to invest in in this District of Columbia."

Page 33, line 18, insert, after the word "officers," "of a domestic company."

Page 33, line 21, insert, after the word "if," "such."

Page 34, line 3, strike out the last word and insert "a domestic."

Page 35, line 8, strike out the word "any" and insert "a domestic."

Page 35, line 10, insert, after "tion," "its corporate powers shall thereupon expire."

Page 35, line 11, strike out the word "its."

Page 35, line 12, strike out the words "corporate powers shall thereby expire."

Page 35, line 21, insert, after the word "no," "domestic."

Page 36, line 11, insert, after the word "every," "domestic."

Page 36, line 11, strike out the word "or."

Page 36, line 12, strike out entire line.

Page 36, line 13, strike out the word "Columbia."

Page 36, line 17, insert, after the word "reelection," "provided that at least a majority of said board shall be residents of the District of Columbia."

Page 36, line 19, insert, after the word "holder," "whose insurance shall be in force and shall have been in force for at least one year prior thereto."

Page 37, line 2, insert, after "section 36," "subject to the provisions of section 34 of this act."

Page 37, line 4, strike out the words "or by the" and insert "seconded in writing."

Page 37, line 5, strike out the words "nomination of any other" and insert "by at least one hundred."

Page 37, line 5, strike out the word "holder" and insert "holders."

Page 37, sec. 7, add the following paragraph: "The governing board of the company shall appoint a suitable number of inspectors of election, who shall be qualified voters and shall be paid for their services by the company. Immediately upon the closing of the polls the inspectors shall proceed to the examination of the ballots and shall canvass the vote lawfully cast. The canvass shall proceed from day to day and the inspectors shall certify the result to the company as soon as it is completed."

Page 38, line 5, strike out the word "the" and insert the word "such."

Page 38, line 19, strike out, after the word "election," "but no employee."

Page 38, line 20, strike out entire line.

Page 38, line 21, strike out the words "of the company shall act as proxy for any member."

Page 38, line 21, strike out the word "nor" and insert "and."

Page 38, line 22, strike out the words "shall any" and insert "no."

Page 39, line 3, strike out the word "any," the third word in the line, and insert "said."

Page 39, line 17, strike out the word "the" and insert "said."

Page 40, line 14, after the word "election," add the following: "Such ballot shall be signed by the insured, and all ballots cast as herein provided shall be forwarded to the company, on or before the date of the election, at the home office of the company for verification of their legality in the same manner as if cast at home office."

Page 40, line 18, strike out the words "or by mail."

Page 41, line 10, insert, after the word "when," "at least five per centum and not less than."

Page 41, line 10, strike out the words "or more members" and insert "policy holders residing in any one State."

Page 41, line 11, strike out the word "the," when last used in this line, and insert "said."

Page 41, line 17, insert, after the word "and," "not less than five per centum and."

Page 41, line 18, strike out the word "members" and insert "policy holders."

Page 41, line 24, strike out the words "five hundred" and insert "the preceding per centum and number of."

Page 42, line 9, insert, after the word "election," "within four months after date of such election."

Page 42, line 10, strike out section 47 in its entirety and insert the following: "Annual distribution of dividends." "Sec. 47. That every domestic life insurance company shall provide in every participating policy issued on or after the first day of January, 1907, that such policy shall be credited annually of its share of the apportionable surplus. The share so apportioned shall be applied as provided in the policy, either in reduction of the succeeding year's premium or to the purchase of additional benefit or paid in cash or left with the company to accumulate, provided such accumulation shall be withdrawable in cash upon any anniversary of the policy."

"A foreign company which shall not provide in every participating policy issued or delivered in the District of Columbia on or after the first day of January, 1907, that such policy shall be credited annually with its share of the apportionable surplus as herein provided for domestic companies shall not be permitted to do business within the District of Columbia."

Page 44, line 7, strike out section 48 in its entirety and insert the following:
 "Sec. 48. Contingency reserve.—Any domestic life insurance corporation may accumulate and maintain, in addition to an amount equal to the net values of its policies computed according to the standard adopted by it under section 84 of this chapter, a contingency reserve not exceeding the following respective percentages of said net values, to wit: When said net values are less than one hundred thousand dollars, twenty per centum thereof, or the sum of ten thousand dollars, whichever is the greater; when said net values are greater than one hundred thousand dollars, the percentage thereof measuring the contingency reserve shall decrease one-half of one per centum for each one hundred thousand dollars of said net values up to one million dollars; one-half of one per centum for each additional one million dollars up to ten million dollars; one-half of one per centum for each additional two million five hundred thousand dollars up to twenty million dollars; one-half of one per centum for each additional twenty-five million dollars up to seventy-five million dollars; and if said net values equal or exceed the last mentioned amount, the contingency reserve shall not exceed five per centum thereof: *Provided*, That as the net values of said policies and the maximum percentage measuring the contingency reserve decreases such corporation may maintain the contingency reserve already accumulated hereunder, although for the time being it may exceed the maximum percentage herein prescribed, but may not add to the contingency reserve when the addition will bring it beyond the maximum percentage: *Provided, however*, That nothing herein contained shall be construed to effect any existing surplus or contingency reserve held by any such corporation save that whenever the existing surplus and contingency reserves, exclusive of said net values and of all accumulations held on account of existing deferred dividend policies or groups of such policies, shall exceed the limit above mentioned it shall not be entitled to maintain any additional contingency reserve: *Provided further*, That for cause shown the commissioner of insurance may at any time and from time to time permit any corporation to accumulate and maintain a contingency reserve in excess of the limit above mentioned."

Page 44, line 9, insert, after the word "no," "domestic."

Page 44, line 9, strike out "doing busi-."

Page 44, line 10, strike out "ness in the District of Columbia."

Page 44, line 25, strike out "doing busi-."

Page 45, line 1, strike out "ness within the District of Columbia."

Page 47, line 14, strike out the word "the" and insert "a."

Page 47, line 15, strike out entire line.

Page 47, line 16, insert before the word "each," "statement that."

Page 47, line 16, strike out "to be issued here."

Page 47, line 17, strike out "under."

Page 47, line 17, strike out the word "this" and insert "the."

Page 48, between lines 16 and 17 insert the following:

"Sec. 54. If any policy of life insurance (other than a term policy for twenty years or less), issued on or after January first, nineteen hundred and seven, by any domestic life insurance corporation, after being in force three full years, shall by its terms lapse or become forfeited by the nonpayment of any premium, or any note therefor, or any loan on such policy, or of any interest on such note or loan, the reserve of such policy, computed according to the standard adopted by said company in accordance with section eighty-four of this chapter, together with the value of any dividend additions upon said policy, after deducting any indebtedness to the company and one-fifth of the said entire fund, or a sum equal to two and one-half per centum of the face of said policy, if said sum shall be more than the said one-fifth shall upon demand, with surrender of the policy, be applied as a surrender value, as agreed upon in the policy, provided, that if no other option expressed in the policy be availed of by the owner thereof, the same shall be applied to continue the insurance in force at its full amount, including any outstanding dividend additions, less any outstanding indebtedness on the policy, so long as such surrender value will purchase non-participating temporary insurance at net single premium rates by the standard adopted by the company, at the age of the insured at the time of lapse or forfeiture: *Provided*, In case of any endowment policy, if the sum applicable to the purchase of temporary insurance shall be more than sufficient to continue the insurance to the end of the endowment term named in the policy, the excess shall be used to purchase in the same manner pure endowment insurance, payable at the end of the endowment term named in the policy, on the conditions

on which the original policy was issued: *And provided further*, That any attempted waiver of the provisions of this paragraph in any application, policy, or otherwise, shall be void: *And provided further*, That any value allowed in lieu thereof shall be at least equal to the net value of the temporary insurance or of the temporary and pure endowment insurance herein provided for. The term of temporary insurance herein provided for shall include the period of grace, if any."

Page 48, line 20, insert, after the word "any," "domestic."

Page 48, line 20, strike out "doing business within."

Page 48, line 21, strike out "this District."

Page 80, line 7, strike out, after the word "other," "kind of."

Page 80, line 15, strike out "a standard" and insert "an approval."

Page 81, to section 55, add the following: "Except those companies or associations now authorized to do business in said District and which shall have and maintain a reserve fund on their assessment policies or certificates equal to the net value of such policies or certificates, valued as one year term policies as provided in section 10 hereof," and

"*Provided, further*, That any existing domestic assessment company or association may, within the written consent of said commissioner of insurance and upon a majority vote of its trustees or directors, amend its articles of incorporation and by-laws to conform with this act, and upon so doing, and upon procuring the official certificate of said commissioner of insurance to transact business of insurance within the District of Columbia under such amended charter the said corporation shall be deemed so far as may be to have been incorporated under this act, and shall incur the obligations and enjoy the benefits hereof the same as though originally thus incorporated, and such corporation, under its charter as thus amended, shall be a continuation of such original corporation, and the officers thereof shall serve through their respective terms as provided in the original charter, but their successors shall be elected and serve as in such amendment provided: *Provided, however*, That such amendment or reincorporation shall not affect existing suits, rights, or contracts."

Page 81, line 22, strike out the words "but no officer or agent," together with lines 23 and 24, and insert "provided no one person act or vote as proxy for more than twenty members. All proxies shall expire within six months of their date."

Page 99, line 17, insert, after the word "company," "other than life."

Page 108, line 21, insert, before the first "the," at the beginning of the line, "the fee required therefor by section 19 of this act."

Page 109, line 3, strike out the words "the renewal" and insert "reissue."

Page 109, line 4, strike out the word "renewal" and insert "reissue."

Page 109, line 4, insert, after the word "of," "the stipulated fee."

Page 109, line 5, strike out "dollars."

Page 109, line 5, strike out the word "July" and insert "May."

Page 116, insert, after section 106, the following: "Sec. 107. Any person knowingly receiving any rebate or allowance or deduction from any premium or any valuable thing, special favor or advantage whatever, as an inducement to take any policy of life insurance, not specified in the policy, shall be guilty of a misdemeanor."

Suggested alterations in the form of standard policy as contained in House bill 17760 (pp. 49 to 80); also to section 47 (pp. 43 and 44).

Lines 15 to 24, on page 51, describe the manner in which dividends shall be used.

Lines 1 to 4, on page 52, read as follows: "Unless the holder of this policy shall elect otherwise within three months after the mailing by the company of a written notice requiring such election, the dividends shall be applied to purchase paid-up additions to the policy."

The general, probably the uniform, practice of companies which have paid annual dividends has been to make the dividend declared payable at the next anniversary of the policy. When notice of the premium falling due at the next anniversary is sent, there is also sent a statement of the dividend. There would seem to be no need whatever to send a previous notice of the dividend, as seems to be required by the lines just quoted and also by lines 8 to 18 of section 47, page 43. Nor is there any need to allow so long a period as three months in which the policyholder shall determine how he wishes the dividend applied. If he wishes the dividend used to reduce his premium, he will

remit a check for the amount of the premium less the dividend. If he wishes the dividend applied to buy an addition to his policy, he will remit the full amount of the premium. There is no conceivable reason why there should be two transactions at different times.

If a policy holder were to decide to take a new policy, it would be necessary for him to be examined. A dividend addition corresponds to a new policy, and properly a policy holder should be examined to obtain the privilege. It is submitted that the policy holder would be sufficiently protected if he were allowed at the time of the first dividend the privilege of buying the addition, without examination, and of having this privilege continue so long thereafter as he might desire to apply his dividends in this way. If, however, at the time of the first dividend he did not embrace the privilege, or having embraced it he should at some time in the future discontinue it, an examination should be required.

One of the four methods of applying the dividend is the privilege of allowing the dividend to remain as a deposit with the company at a rate of interest agreed upon. This is a new idea entirely, not called for by any public demand, and it would subject a company to the grave responsibility of investing the money so deposited and guaranteeing the investment without any compensation for doing so. In the absence of any demand whatever for such a novel feature, it should not be imposed upon the company.

The following amendments are therefore proposed to the standard forms for ordinary life, limited-payment life, endowment, and term policies, and to section 47 (pp. 43 and 44) :

Strike out lines 17, 18, 19, and line 20 to the word "or," on page 51, in the standard form for ordinary life policy, and change the numbers of the two following options, respectively, to (2) and (3).

Strike out lines 1, 2, 3, and 4, on page 52.

Also, similar amendments to the standard form for limited-payment life policy. (See lines 2 to 12, on page 59.)

Also, similar amendments to the standard form for endowment policy. (See lines 4 to 14, on page 66.)

Also, similar amendments to the standard form for term policy. (See lines 22 to 25, on page 74, and lines 1 to 7, on page 75.)

Strike out on page 43, section 47, lines 3, 4, 5, and line 6 to the word "or."

Strike out on the same page, section 47, line 8 after the word "thereto," and lines 9, 10, 11, 12, 13, 14, 15, 16, 17, and line 18 to and inclusive of the word "insured."

Strike out in section 47, page 43, the words "respectively, either," on line 19, and on line 20, after the word "December," and line 21 and line 22 to and inclusive of the word "policy."

After the word "completed," on line 21, page 44, section 47, insert: "A policy holder shall at the time of his first dividend have the right, without medical examination, to elect that his dividends shall be applied to purchase paid-up additions to his policy. If, however, he should not make the election at that time, or, having made it, should subsequently use his dividend in any other way, a medical examination will be necessary to acquire the right to apply his dividends to buy paid-up additions to his policy."

Additional amendment to section 47, page 42.

Section 47 apparently requires that when an annual distribution of surplus is made, every policy on the books of the company at that time shall share in the distribution. It is suggested that the section should be amended so that only policies upon which two annual premiums have been paid should share in the distribution. In the past a number of annual dividend companies have paid dividends at the end of the first year, but such dividends were purely artificial. The first expenses of obtaining the policy, plus the share in the mortality expense for the year, plus the reserve for the year, exhausted the premium; in point of fact exceeded the premium. Consequently there was no surplus on the policy. If a dividend were paid, it was practically at the expense of the older policies. Recently a law was passed in New York limiting the expense of obtaining the business: but even under that limitation there would be no surplus. It is submitted that it is unwise to enact a law compelling a division on one-year-old policies when it is known in advance that no surplus could exist. It is recommended, therefore, that after the words "nine hundred and

———" on line 25, page 42, there shall be inserted the words "upon which two annual premiums had been paid."

Respecting the provision in the standard forms for ordinary life, limited-payment life, endowment, and term policy for modes of settlement when the policy becomes a claim by death or maturity.

The average amount of policies is considerably less than \$5,000. In nearly every case of a small policy, and it has been shown that such policies constitute the vast majority of policies issued, the only mode of settlement desired is the payment of the amount in a lump sum. Very rarely would it be desired that the small amount should remain permanently as a deposit with the company, or should be paid to the beneficiary in small annual installments extending over a series of years, or that an annuity should be payable to the beneficiary after these installments had ceased. The modes of settlement just described are desired only for a comparatively limited number of policies for large amounts of insurance. The description of these modes of settlement involves a great multiplication of words and, however happily expressed, is not easily understood by the average policy holder. It is suggested, therefore, that for each of the four kinds of insurance, namely, ordinary life, limited-payment life, endowment, and term, there should be two standard forms, designated, respectively, "A" and "B," the forms to be identical, except that in Form A the mode of settlement shall be the payment of the amount of the policy in a lump sum. The two important points gained would be that to the great majority of policy holders the form of policy would be much more simple and much more easily comprehended, and the company would be saved an enormous amount of clerical expense in the filling out of the policies. In Form B it would be necessary to fill in in each case the details of the amount of installments, etc. It is believed that this proposed change would more certainly accomplish the purpose in the adoption of standard forms of policy. As has been explained, Form A would be a simpler document, more easily comprehended. The premiums on both kinds of policy would be the same.

COMMITTEE ON THE JUDICIARY,
Tuesday, May 15, 1906.

The committee this day met, Hon. R. W. Parker in the chair.

**ADDITIONAL STATEMENT OF MR. JOSEPH ASHBROOK, MANAGER
PROVIDENT LIFE AND TRUST COMPANY, PHILADELPHIA, PA.**

Mr. BIRDSALL. This bill comprehends the scheme of all kinds of insurance, fire as well as life, within the District of Columbia?

Mr. ASHBROOK. Yes, sir.

Mr. BIRDSALL. Does your experience also go to fire insurance?

Mr. ASHBROOK. No, sir.

Mr. BIRDSALL. It is confined to life insurance?

Mr. ASHBROOK. Yes, sir.

Mr. BIRDSALL. What you said in reference to a standard policy was particularly with reference to life insurance?

Mr. ASHBROOK. The bill does not provide a standard form of policy for any other than life insurance.

Mr. BIRDSALL. It is your idea that a company should be permitted to come here with such a form of life insurance policy as they have adopted elsewhere?

Mr. ASHBROOK. I intimated that there might be a restriction in some form as to the kind of insurance, but as to the forms of insurance indicated in the bill between life insurance, limited payment, endowment, and term insurance, I see no necessity for such an elab-

orate plan of policy as is provided in the bill. I think the present forms are very clear and answer every possible purpose. I think the object in putting in a standard form is to prevent the issue of policies which might be considered deceptive, at least that are susceptible of misrepresentation. There is no need for such guard as to the forms referred to there. All the policies existing to-day are so clear and explicit in terms that anybody can easily understand them.

The ACTING CHAIRMAN. They have been much improved of late years?

Mr. ASHBROOK. Thy have been constantly improved.

Mr. BIRDSALL. As to the policies to be issued by local companies incorporated under this code within the District of Columbia, do you think it would be advisable to have a standard policy?

Mr. ASHBROOK. I do not think that is a matter which would concern the companies outside.

Mr. BIRDSALL. But speaking generally on the proposition within the District of Columbia?

Mr. ASHBROOK. For the same general reasons that I do not think there is a necessity for policies for other companies I would not think there was a necessity for the District of Columbia.

Mr. BIRDSALL. Ought there not, then, to be a power within the commissioner to approve the policies presented?

Mr. ASHBROOK. Mr. Ames explained to me that the bill as amended provides for that very amply and in a most remarkable manner. It is really left largely, if not entirely, to his discretion. If the standard form which is presented in the bill is not satisfactory, not only as to kind of insurance but as to the words used, he can appear before the commissioner and request permission to issue another form.

Mr. BIRDSALL. My question sought to elicit your opinion as to whether it would be better to describe the form of policy or leave it with the commissioner?

Mr. ASHBROOK. My personal opinion—and I want to express it not as antagonizing the opinions of other people—my personal opinion is that no standard of policy is required.

The ACTING CHAIRMAN. You think the commissioner would have enough power without any fixed approval?

Mr. ASHBROOK. I stated yesterday that it would be a proper requirement that a company should be compelled to furnish immediately a copy of its form to the commissioner, and if in his judgment it was misleading and imperfect in phraseology or in its kind of insurance it was objectionable that a remonstrance on his part to the company would very likely be effective, and if it was not effective an allusion in his next annual report, which would be justified, would correct the evil.

The ACTING CHAIRMAN. Without any fixed statutory form?

Mr. ASHBROOK. That was my personal opinion.

Mr. BIRDSALL. Do you know what States have prescribed any standard form of life insurance?

Mr. ASHBROOK. I think I can say that previous to the recommendations of the Armstrong committee in New York, one of which recommendations was the statutory policy, that no State in the Union had ever prescribed the statutory form.

Mr. AMES. Mr. Chairman, yesterday there were some questions as to the corporate code in the District of Columbia. There have been strictures made upon this bill, owing to its length, and I proposed yesterday afternoon to bring to the committee this morning a copy of the District Code and let you see it in comparison with the corporation code provided for in the bill. That, perhaps, will explain part of the length of the bill.

The ACTING CHAIRMAN. We can do that. At the present there are gentlemen here from great distances, and it has been suggested that as far as possible we hear those gentlemen as to the advisability of this legislation. There are a great many men of ability here.

Mr. AMES. I think that would be advisable. I do not think I am stretching the point when I say I believe that every one here will agree that a proper code enacted into law in the District of Columbia would be of much benefit to the insurance companies and to the administration of insurance laws throughout the country, owing to the fact that probably each legislature, except that of the State of New York, will enact this coming winter a new insurance code for its State. If that legislation can be made uniform or a standard set for it, it would simplify matters a great deal, and I would suggest that you ask for a precise and definite expression of opinion as to the advisability of a proper code to be enacted into law in the District of Columbia.

The ACTING CHAIRMAN. I do not know that the committee ought to limit the gentlemen.

Mr. AMES. No; but make it specific.

The ACTING CHAIRMAN. I think the general policy of the committee is to hear these gentlemen on the main features of the bill or any particular parts they think should be amended or any suggestions they desire to make as to the subject of life insurance, and if you will introduce the gentlemen we will be very glad to hear them.

Mr. AMES. Mr. O'Brien desires to say a few words to the committee.

ADDITIONAL STATEMENT OF MR. THOMAS D. O'BRIEN, COMMISSIONER OF INSURANCE, ST. PAUL, MINN.

Mr. O'BRIEN. Mr. Chairman, if I may make a suggestion, I do not know whether it will meet with the approval of the other gentlemen who are here, but for myself I would like very much to give my views as to the general question and to be allowed to go home, and I think a large number of gentlemen here are in the same position.

As to the details of this bill, if a subcommittee of this committee, or the author of the bill, with the insurance commissioner of this District and some of the actuaries who have been so kind as to come here and express their views, would take this matter up, they could report to this committee a bill containing the amendments which we all concede are absolutely essential.

The ACTING CHAIRMAN. This is not exactly the time to make that disposition of the matter, but if you have anything further to say we would like to hear from you.

Mr. O'BRIEN. I have nothing that I could add.

Mr. Chairman, so far as the general principles are concerned, and what was said by Major Ashbrook yesterday afternoon, the situation

throughout the United States is such that cool, conservative, and prompt action by legislative bodies is almost essential, in my opinion, to the preservation of the business of insurance. The level-premium life insurance companies possess assets that are almost equal to the combined assets of the savings banks of the United States. There are, at a reasonable calculation, 25,000,000 people directly interested in insurance policies issued by companies of that character. A large number of policy holders have absolutely their entire savings in those policies. The business, I believe—and the insurance gentlemen present can contradict me if I am mistaken in that—is at the present time disorganized. Agents are compelled to give up their business and seek a livelihood in other ways. The agencies of the companies are being more or less destroyed; and, under those circumstances, it is to the interest not only of the policy holders, who have their savings invested in this matter, but it is to the interest of the business community generally, because these companies actually possess one-fortieth of the entire estimated wealth of the United States, and it is to the interest of the business community and to the policy holders and to the hundreds of thousands of men who have earned their living in the business of life insurance and who know no other business, that some sane and safe conclusion be arrived at.

If the District of Columbia adopts such a bill as this it will be a guiding light to all the States. Every conservative, intelligent, and honest commissioner will be able to say to the legislature in his State next winter, "Here is what the best talent in the United States has said is sufficient." The dignity of Congressional action can not be overestimated. The conservative force of a bill presented after consideration by these gentlemen can not be overestimated, and speaking from the standpoint of a person who is far from being an expert upon insurance, but who has given all of his thought to this subject for the last fifteen months, I say that I do not believe there is any higher duty resting upon the members of this committee at this time than to produce and present to the country, if possible, a model code. It is not a difficult work. It is not a difficult work, because there is at your disposal at this time the results of the most extraordinary investigation that ever took place in this country. There is at your command concrete results of those gentlemen's action and the views of those gentlemen who guided that investigation.

Upon the question of annual accounting, upon the question of standard policies, and upon the question of what the annual reports should contain you have right at hand the result of those gentlemen's action, which I believe everybody should indorse. Some of us absolutely believe that they go only sufficiently far in all of these matters; other gentlemen concede that, at least, they do not go too far. So the work is comparatively simple, and a subcommittee could arrange that. This bill was gotten together in such a manner that it is absolutely essential that there should be amendments. There is no doubt about that, but the fundamental principle that underlies the whole question is, after all, publicity. With publicity goes annual accounting. With publicity goes a proper system of making annual reports, and, as I say, those matters have been so fully gone into in the State of New York that it would be a comparatively simple matter to get up a bill along those lines. On policy forms

make it as liberal as Mr. Ames suggests. My idea is that this hearing ought to be confined to the question of whether or not it is advisable that a code of this sort be adopted by Congress, and, if that is determined, let Mr. Ames and these other experts get together and make the amendments that everybody says are necessary to this bill, and then a model code can be presented to Congress.

Mr. BIRDSALL. Assuming that a bill of this character should pass, providing for a central board of examination, because that is what it amounts to, so far as the States are concerned, would you feel justified—I do not ask you to answer the question from an official position—would you feel justified in recommending to the legislature of your State or of any State that the several commissioners be authorized to accept the examination made here as sufficient to authorize the companies to do business in their respective States?

Mr. O'BRIEN. I not only would recommend it, but I would certainly exercise my very best efforts to secure the passage of it.

Mr. BIRDSALL. It is your thought that the board would be removed from local influences and also possess powers and means of examination that are not at the command of the State commissioners?

Mr. O'BRIEN. Yes, sir. I think if that provision was there it would be of the greatest service to every State commissioner, and I see nothing in the bill that compels the commissioner to relinquish any of his own power.

Mr. AMES. Mr. Messenger, of the Travelers' Insurance Company, would like to address the committee.

The ACTING CHAIRMAN. We shall be pleased to hear Mr. Messenger.

STATEMENT OF MR. H. J. MESSENGER, ACTUARY, TRAVELERS' INSURANCE COMPANY, HARTFORD, CONN.

Mr. MESSENGER. Mr. Chairman, I represent the Travelers' Insurance Company, of Hartford, Conn., and I am the company's actuary. The Travelers' Insurance Company is a stock company doing a life, general accident, liability, and health business. Ninety per cent of its life business is nonparticipating. Its participating business is all less than three years old. I state these facts because the company represents a little different position from most companies. I had a brief prepared in regard to the original bill, or rather bill No. 18804, but I find that the amendments which have been proposed have so changed that bill that that brief is now of little value. Last night I looked over the amendments and I compared them with the bill, in order to get an idea of the changes, but I did not have time to give it the careful consideration which I should like, and more than that I found to a considerable extent, commencing with page 44, that the page and line references are not correct, probably due to some typographical error. So I was not able to fully study the changes.

Unless the committee prefers, I will first call attention to some special features in the bill, and, as I have not had the time to carefully study the changes, if in speaking it is evident that I am under a wrong impression as to the character of the amendments, I hope someone will correct me.

I first wish to refer to the standard policy. As amended, as I understand it, the standard policy applies only to domestic compa-

nies—that is, companies in the District of Columbia. But at the same time I understand that this bill is to be taken as a model, or at least some hope that it will be taken as a model, for State legislation. It is therefore desirable that in legislating for the District of Columbia there should be nothing highly objectionable in the bill if inserted in State legislation. Now, in the standard policy you will find at the bottom of page 52, under the head of "Options on surrender or lapse," "after this policy shall have been in force two full years it may be surrendered by the holder at any time prior to any default," etc., can be surrendered for paid-up insurance. That is amended, but not amended for the District of Columbia, as I understand it.

Mr. AMES. Yes, sir. Any form which the commissioner may approve would be permissible in the District. So if you did not choose to write one of those forms you would not be compelled to.

Mr. MESSENGER. Do I understand that is the case in the District of Columbia?

Mr. AMES. Absolutely.

Mr. STERLING. I do not understand that there are any amendments. There may be some amendments that have been suggested to this bill. The committee has not recommended any. I presume we would be glad to hear these gentlemen on the bill as it is, or any of the proposed amendments.

The ACTING CHAIRMAN. I think I can speak for the committee and say that they are all very glad to get opinions from the men who are really acquainted with this matter. We may not be able to get them here again.

Mr. MESSENGER. I will state that, as I understand it, the original bill provides that at the end of two years the policy holder may surrender his policy and obtain a paid-up policy, based on the value reserve. The amendment fixes the period at three years. What I wish to say is that, from the standpoint of the policy holder, not from the standpoint of the company, this requirement is unjust. No company has on hand at the end of the second year sufficient to give such a paid-up value unless the policy is of an exceptional character, and if any general paid-up values are given at the end of the second year, based upon the value reserve in the first place, it is an encouragement for men to give up their insurance, even when it is good insurance, and in the second place, worst of all, it is taking money from the policy holders who keep their insurance in force for a long period and giving it for a too large surrender value to those who withdraw at the end of the second year.

Mr. AMES. Before the convention at Chicago the president of one of the western companies testified that with a preliminary term policy, for which this bill provides—and it does not provide for a valuation on the select method—that there would be an equity belonging to the policy holder after one year's full payment had been made. How do you feel about that?

Mr. MESSENGER. If I understand that point as it appears in this bill—I am not sure that I do, because a great deal of this is very confusing—but if I understand that, if the preliminary term value is used it must be stated clearly in the policy that it is a preliminary term policy.

Mr. AMES. Yes, sir.

Mr. MESSENGER. And a company issuing the other form, representing it not as being preliminary term, does not wish to consider it as a preliminary term policy and does not wish to represent to the policy holder that it is a preliminary term policy.

Mr. AMES. In the preliminary term policy is there not an equity at the end of the second year?

Mr. MESSENGER. There may be in some cases; I will not deny it.

Mr. Chairman, on page 50, at the bottom of the page, under the heading "Conditions," you will find the following:

The policy may here provide for restrictions of liability by reason of travel, occupation, change of residence, and suicide, applicable only to one year after the issuance of the policy.

Now, I wish to say in regard to that provision, that as to standard risks, which have simply some temporary hazard, that may possibly be all right, but that does not cover all cases. The experience of the Travelers Insurance Company in this country, the accident experience, the most extensive experience of that kind in the world, shows that the extra hazard of death from accident in the case of a freight brakeman can not be covered by less than \$15 a year. Suppose under this form of policy we want to insure a freight brakeman. If we take him, we are bound to continue him as long as he pays the premium. We are limited to charge an extra premium to just one year, and probably \$100 would not more than cover the risk as an extra charge. What chance would we have of insuring a freight brakeman when we tell him that he must pay the regular premium and in addition to that he must pay \$100 before he gets his policy of \$1,000?

There are a great many cases where the hazard is excessive and continuous during the life of the policy, and you can not provide by one single payment when the policy is issued. There should be a provision so that in such cases the extra premium can continue through the hazard. If he changes his occupation to one unobjectionable we can remove the extra charge.

Mr. BIRDSALL. Does not this language limit the term?

Mr. MESSENGER. Yes, sir; that is just what I am objecting to.

Mr. STERLING. I do not think that applies or is intended to apply to the case which you speak of. I think it simply means that a policy would not be void after one year on account of suicide, change of occupation, travel, or things of that kind. I do not think it would apply where you would insure a brakeman if he was a brakeman at the time the policy was issued, but if a man should change his occupation or residence or commit suicide after one year that would not void the policy and would not relieve you from the liability.

Mr. MESSENGER. I think you assume there that we are going to charge a premium which includes the extra hazard, but with no mention of it in the policy. The applicant will always object to that.

Mr. BIRDSALL. Does not this provision go further than that? Suppose your company concludes that it would be unprofitable and dangerous to insure a man engaged in a powder house, they would put a restriction of that kind in the policy. I think that under this provision that would be good for only one year, that the second year he might engage in that business and continue to engage in it during the life of the policy?

Mr. MESSENGER. We would not give him a policy under those circumstances. That is what I am objecting to.

Mr. STERLING. But any person might change his occupation?

Mr. MESSENGER. Certainly; and when he changes his occupation to one that is not hazardous we take off the extra premium.

Mr. STERLING. I do not know whether that is a fair provision or not. Do not understand me to say that I think it is a fair provision. I do not think it relates to the insurance of a man already in a hazardous occupation. I do not think it is intended to cover a case of that kind.

Mr. MESSENGER. If that is so, then there is no provision for our insuring that class under possible conditions. I mean "possible" to get the business on terms such as we are willing to take the business.

The ACTING CHAIRMAN. You can not give cheap rates unless you can be sure to be guarded against extra hazardous occupations?

Mr. MESSENGER. We must have some way to guard ourselves, and we can not do it by a premium for just one year.

I wish to say just a few words with regard to substandard insurance.

The ACTING CHAIRMAN. Please give us the definition first.

Mr. MESSENGER. I will. I will say at the beginning that I regret there is no provision for substandard insurance in the Armstrong legislation. Substandard insurance is the insurance of under-averaged lives. In standard lives those gentlemen pass the examination of the medical examiner for the standard policies which the company is supposed to issue. A considerable percentage of those who present themselves for examination as applicants for insurance are substandard lives. I am making an underestimate when I say 10 per cent, and yet there is no provision for this class. They are men who most need insurance, and it is a perfectly legitimate business and a business which can be safely covered. Several companies have made quite a careful examination of this form of insurance. If there is no provision for this class of lives, they must be rejected. They must go without insurance. This can be easily provided for by allowing the company to place a lien upon the policy, which may be a fixed amount or it may be decreasing.

There are quite a number of companies which issue on substandard lives insurance policies stating that in case of death the first year a certain percentage—from 50 to 80 per cent—of the face of the policy will be paid. In case of death in the second year, a larger percentage, and gradually increasing, until, if the man lives fifteen or twenty years, in case of death his beneficiaries get the full amount of the policy. This is a safe feature for the company. I can see no logical objection to it. It will cover a large amount of business and cover a class which ought to be provided for.

Mr. AMES. If I may interrupt you, do you think the amendment proposed to page 16 would cover your objection—"The insurance commissioner may vary the standards of interest and mortality in the case of corporations," etc.?

Mr. MESSENGER. I was reading that last night, and I was unable to make anything out of it; that is, a portion of it.

The Insurance commissioner may vary the standards of interest and mortality in the case of corporations from foreign countries as to contracts issued by such corporations in other countries than the United States;

I notice there is a semicolon. Then it says—

and in particular cases of invalid lives and other extra hazards, and value policies in groups, etc.

I do not know just the connection or force of the words "in particular cases of invalid lives." I do not know whether or not that refers to corporations from foreign countries only, and I would hesitate to say that is authority for substandard insurance. If it is intended as authority for substandard insurance it is all right.

Mr. AMES. It was so construed by the board of New York.

Mr. MESSENGER. Then I think it should be gone over carefully and rewritten, because it certainly is not properly constructed as at present.

As I said at the outset, the Travelers' Insurance Company is doing a life, general accident, liability, and health insurance business. I have not had time to carefully see what the law is in this bill in regard to companies doing different kinds of insurance, and have not had time to see whether those parts of the bill have been amended, but I wish to ask the privilege of submitting something on that point later if I find it necessary. I will state in general, however, that I see no reason why a company should not be permitted to do those different kinds of insurance, particularly if it already has the right to do so by charter, and I think it can be mathematically demonstrated that it is safer for a company to do half a dozen kinds of business than to confine itself to one kind, doing an equal amount of business. The chance of greater gain and also the chance of greater loss applies mostly to the company which does just one kind.

In regard to cash surrender values, as I understand it, this bill does not provide for cash surrender values, except in the indirect way that a policy holder can make a loan, and then when a year's interest on the loan has run out he can just let the matter drop, and the company has no remedy. In that way he keeps the loan, but that is an indirect way, and I most fully believe that it is best that a safe, conservative cash surrender value should be allowed by law in every policy except term policies, and in that case the reserve is not large enough to justify a cash surrender value. I wish to say, however, that I am not speaking in favor of large cash surrender values. Competition has already carried cash surrender values to a higher point than the real interests of the policy holders require.

Mr. AMES. Have you had a chance to read over the proposed amendment on page 48, making a new section—section 54:

If any policy of life insurance (other than a term policy for twenty years or less) issued on or after, etc.?

That provides for cash surrender values and also excepts the term "policies."

Mr. MESSENGER. Then I am speaking in favor of your amendment, and I am sure you will not object to it. However, the chairman has intimated that I may speak in general in regard to the provisions of the original bill.

Mr. AMES. It does not provide for cash surrender values.

Mr. MESSENGER. Then it ought to. I do not wish to take up too much time, Mr. Chairman. I have just two more points to refer to.

Mr. ALEXANDER. I would like to ask you one question. Under this code, if adopted, could an insurance company do business in the

District of Columbia that would not allow payment on a policy that had lapsed or that the policy holder wanted to convert into cash?

Mr. MESSENGER. After a certain period, which will be two or three years, dependent upon how this legislation is decided, and dependent upon the legislation in other States—after a certain period all companies must give cash surrender values.

Mr. ALEXANDER. Are there any companies doing business at the present time that do not give surrender values?

Mr. MESSENGER. I think not. I do not see how they could do business; it is such a general requirement.

Mr. ALEXANDER. At the present time are there any companies doing business that do not give surrender values?

Mr. MESSENGER. I think not. Practically all the States require surrender values.

The ACTING CHAIRMAN. How soon do you think a cash surrender value should be required, and what portion of the reserve on an ordinary life policy should it be?

Mr. MESSENGER. At the end of three years. The proportion of the reserve would depend upon the kind of policy. It would be less with the ordinary life and much greater with the high premium endowment form.

The ACTING CHAIRMAN. And it would vary between what proportions? I see four-fifths is given here. Is that too high for a surrender value?

Mr. MESSENGER. As a cash surrender value?

The ACTING CHAIRMAN. What would be the ordinary proportion that you think should be allowed?

Mr. MESSENGER. At the end of which year?

The ACTING CHAIRMAN. Any year you select.

Mr. MESSENGER. At the end of the third year it would run from 50 to 75 per cent.

The ACTING CHAIRMAN. And at the end of ten years?

Mr. MESSENGER. It would go up nearly to the full reserve—close to it.

The ACTING CHAIRMAN. You mean cash surrender value; cash that can be demanded?

Mr. MESSENGER. Yes, sir. The law should require that.

The ACTING CHAIRMAN. I want to know what you think the law should require in the way of a cash surrender value?

Mr. MESSENGER. I am in favor of every policy being entitled to a cash surrender value, but I should make that cash surrender value conservative.

The ACTING CHAIRMAN. That is what I wanted to know, what you regarded as a conservative value?

Mr. MESSENGER. The original bill at least—I do not know whether it has been amended or not—provides to leave all the proceeds of the policy on deposit to accumulate. This is an entirely new feature, a savings-bank feature, and I do not believe that it is desirable to insert anything of the kind in a life insurance policy. The man can have his cash-surrender value or a man can have his paid-up policy, but to require the company to take the proceeds of the policy, however much they may be, and act as a savings bank with the policy holder or the beneficiary having the right to withdraw it at his will seems to me is unwise.

Just a few words now in regard to the requirements of annual reports. All I wish to say is that the requirements are too burdensome. I do not wish to say one word against publicity. I do not wish to say one word against the proper insurance authorities being allowed to exercise all supervision that is necessary in order to make the company conduct its business as it ought to be conducted, but a large percentage of the requirements in the annual reports simply represent a mass of statistics involving great labor and great expense, which will be sent to the commissioner, and if there is legislation like this in the rest of the States all the commissioners throughout the country, and 90 per cent will be laid upon the shelf and never will be looked at. You should require what is absolutely necessary in your annual report, and then if you wish to go any further do it in special cases where it is necessary to make a thorough special examination.

Mr. ALEXANDER. Does this proposed code provide more than what is necessary?

Mr. MESSENGER. I think it does. There will be an immense amount of clerical work that will simply give you a lot of statistics to file away.

The ACTING CHAIRMAN. Have you gone over the suggestion made on pages 8, 9, 10, and 11, etc.; or will you go over them and make suggestions as to what is unnecessary and what may be left in the bill? I do not mean for you to do it while you are on your feet, but the committee would be very glad if you would hand in a brief on that subject.

Mr. MESSENGER. I can not do it on my feet now, but I will be very glad to present something in typewritten form.

The ACTING CHAIRMAN. The subcommittee will welcome it, because that is a matter of detail.

I would like to ask you whether or not you think legislation in the general direction of this bill, so as to provide a model code in the District of Columbia, is advisable at the present time?

Mr. MESSENGER. I will have to give you a qualified answer. I can see two reasons for this legislation, assuming that it is very carefully considered and very properly amended, but neither reason is very strong. The first reason is because I am under the impression—I have not studied it myself, but I am under the impression—that the legislation for the District of Columbia in insurance matters is incomplete; and while it is not absolutely necessary, I am under the impression that it is really desirable that you should have legislation here that is more complete and better systematized. The other reason is that I am inclined to think that if there is no legislation here within a year there will be legislation in some of the States, and in some features that legislation will be too radical and will be unwise; and I have an idea that if there is a wise bill passed here for the District of Columbia the legislation in the other States, where otherwise we would not have as much confidence as we would like, will not be so radical and will be more like what we ought to have. Those are two reasons which I can think of. I do not think they are so very strong, but yet they are reasons.

Mr. STERLING. As I understand it, at the beginning of the year insurance companies do not know what the cost of a policy will be, but

they fix the premium at a certain amount to make the insurance companies safe. At the end of the year how do they estimate what the cost of the policy was?

Mr. MESSENGER. It depends a little upon what you mean. The first cost of the policy we know at the beginning of the year. We know in regard to our entire business away ahead for several years upon the assumption of a given amount of business, what the cost will be as far as the losses are concerned, provided the experience goes according to our assumed mortality table; but during a short period the experience will not follow closely the mortality; it will not actually coincide with it at all, but we assume that the claims will go according to the mortality table, and we base our premiums upon that and also an assumed rate of interest and assumed expense rate.

Mr. STERLING. You do that at the beginning of the year in fixing the premium in the first instance?

Mr. MESSENGER. When we start our business. We do not fix it at the beginning of each year. We have general charges.

Mr. STERLING. At the beginning of each year you determine how much "change," as the gentleman said yesterday, is going back to the policy holders. How do you figure that?

Mr. MESSENGER. You are referring now to participating insurance?

Mr. STERLING. I do not know whether it is participating insurance or not. I presume that applies to a participating policy.

Mr. MESSENGER. The company which I represent is doing mainly a nonparticipating business, and in nonparticipating insurance we let the man keep the "change" to start with; we do not take his "change." We are doing a small amount of participating business, and have only been doing it for a few years.

Is that all the committee desires?

The ACTING CHAIRMAN. That seems to be all.

Mr. MESSENGER. I thank you, gentlemen, for your courtesy.

Mr. AMES. I would like to present to the committee Mr. Dawson, who is the actuary for the Armstrong committee of New York.

**STATEMENT OF MR. MILES M. DAWSON, CONSULTING ACTUARY
TO THE ARMSTRONG COMMITTEE, NEW YORK, N. Y.**

Mr. DAWSON. Mr. Chairman and gentlemen of the committee, this is the first opportunity since I was employed by the Armstrong committee in New York for me to express in public views concerning these matters of legislation. My duty to the committee as its special adviser kept me silent, requiring that I should reserve any opinion that I had to give, for the committee itself. It therefore gives me particularly great pleasure to take to-day out of my time, though it has been very difficult for me to do so, to come here and talk with you.

I may say in introduction that I very fully appreciate the high duties which you are called upon to perform. I fully appreciate that those duties are even of a more serious and important character than the duties which the committee in New York were called upon to perform. You are not simply to pass a bill for the regulation of life insurance in the District of Columbia, or of other kinds of insurance in the District of Columbia. You did do that some years ago. You did it without any noise and without attracting any great public

attention. You passed a bill that was imperfect in a great many regards, but which, under the wise conduct of the department by Superintendent Drake, has worked moderately well, and if you were to-day, under ordinary conditions, engaged in the same sort of thing you would not have had this assemblage of these distinguished men in my profession and distinguished men in life insurance otherwise and representatives of departments throughout the country come here to talk with you to-day.

But by the President's message, as well as by what Congressman Ames desired to accomplish when he introduced the bill, a certain phase of the matter has been especially emphasized, and that is that you are summoned as representatives of the parliament of our nation, a nation to which this matter of insurance legislation the whole world is looking at this moment to perform the exceedingly difficult duty of preparing a model bill; and before I finish I hope to indicate to you, not in a manner to make you feel in the slightest degree discouraged or hopeless, the very great difficulties that confront you in carrying out the trust that has been imposed upon you.

Before I pass to that phase of it, I am going to take up merely those few amendments to the bill which Congressman Ames has introduced here, which would be necessary in order that the bill might not be actually vicious and destructive instead of what was desired. Before passing to that I wish to say that from the very moment that national supervision was mooted in this country, personally I have been in favor of it.

I have had abundant opportunity in my profession and before I adopted the profession of seeing things concerning the supervision of insurance in this country. One of them was that in most of the fifty States and Territories it was a farce; that to all intents and purposes whatever the local companies desired was granted, whether it was a thing that should be granted or not, and evil practices were permitted to grow up. I also observed that even in the best States, in the States where the departments have been comparatively well conducted—such as New York, for instance—such scandals have arisen in the State of New York that no less than three times in the history of that State it has been necessary to take action such as was taken by the Armstrong committee, to investigate the conduct of the department and the conduct of the companies under that department, and twice it has been necessary to impeach before the bar of the senate the man who occupied the position of superintendent. And I think it is only fair to say that if you took the line of men who filled that office and went down the list, at least one-half of them in the conduct of that office would go in among the "goats" instead of among the "sheep." In other words, the result, so far as supervision under State authority is concerned, has not been favorable in most cases.

There is one exception to that, so far as the honesty of the conduct of the office is concerned, one shining exception in the United States—the department of Massachusetts. I am informed that Massachusetts had not the first commissioner, but the first commissioner that ever lifted it to that plane as to efficiency, freedom from political influence and local influence, usually, although not always, which has made the administration of the department, so far as its thoroughness and

efficiency are concerned, a model which you might well follow. And it was because of this and because he came from the State where this was true that Mr. Ames framed originally the legislation which is now before you and is now under consideration. In making that remark I do not wish to be understood to say that the department of Massachusetts has never made any mistakes. It has made mistakes. It has made grievous mistakes and at times very mischievous mistakes, but I do not believe that, aside from the mere occasional swaying by their neighbors, because they were neighbors, the department has ever departed from the strict rules of rectitude as it saw those rules in any case, and I do not know that it is reasonable to expect that any man or any set of men should be so constituted that the wishes and desires of their neighbors, who are honest, well-intending men, conducting honest, well-intending institutions, should not be regarded and sometimes should have greater weight than ought to have been given to them.

There you have State supervision, perhaps, I might say, at its worst and at its best; but that would hardly be fair, because the two cases I have cited to you are possibly the best in this country, New York and Massachusetts. The worst has consisted of "raiders," or fellows who have come out of the West, or out of the East, or out of the North, or out of the South, and, for revenue purposes only, have beset the home offices of insurance companies of all kinds and character and who have even gone to England on European junketing trips and held up the British companies at their own homes, for no purpose in the world but to collect the money for making the examination; and it is these evils that have brought forward first the proposition by President Roosevelt and second when it was seen as a result, largely of the deliberations of your own committee, that those proposals were not feasible under our existing Constitution, brought about the introduction of the Ames bill in the hope that it might solve the difficulties, might bring about reasonable uniformity throughout this country, and above all things might bring about such respect for one department that a multiplicity of examinations and the over-supervision by a confusing number of different departments could be ameliorated, if not done away with.

With that purpose, with that design I find myself in the fullest possible accord. It is not possible for me to speak for the counsel of the Armstrong committee or for the committee itself. I do not know that the question has ever been before them, but from my personal association with them as gentlemen, I am convinced that the sentiment which I have now given they would all subscribe to, and they fully recognize that, notwithstanding, as I shall show you as I go along, a certain amount of antagonism has attempted to be created between your work and theirs, they fully recognize, as I shall proceed to show you, that their legislation was in no sense a model code. How clearly I can show you, I can state in a very few words. Senator Armstrong, as chairman of the committee, confided to me, at Mr. Hughes's request, the drawing of the original suggestion of amendments to the New York laws because of the fact that I was familiar with that legislation generally, and, of course, the first draft might be considered a mere framework for the real task. That work was started about December 15 and finished about January 10, and consisted simply of the amendments that I thought absolutely necessary

and which were along lines and principles that, according to my own view, were such as ought to be covered.

I may say, as has already been stated publicly since the committee has reported, that those original suggestions did not contain a single limitation except the limitation upon the investment of life insurance funds in stocks. Having done this, the committee turned over to me the limitations that they had already determined upon, two of which the committee of actuaries recommend you to adopt. The limitations, the one of them on the contingent reserve, for instance—it means merely that an earnest effort was made in connection with the limitations to so frame them that they would not cripple and ruin the prospects of life insurance companies operating in a proper manner throughout the country. Then, the suggestion was made by Senator Armstrong that we take this work as a basis and make a code, and from January 10 or 12 or 15, in that neighborhood, on until the 1st of February, perhaps for two or three weeks, I was engaged with Senator Armstrong in that work.

I have said all this simply to introduce you to the fact that when the full committee was called together, by advice of Mr. Hughes they adopted as a rule that no matter how good the legislation was they might recommend, if it was not something that was suggested and caused to be considered and to be adopted by the evidence taken by the committee it should not go in the bill. So the Armstrong bills are not in any sense a complete insurance code. They are just what they purport to be, legislation deemed to be wise by the legislature which adopted them, arising out of the investigation of the case and suggested by the evidence taken. The bills that are before you are the result of the evidence taken; and as to the wisdom of their conclusions, which were decidedly not hastily arrived at, I am very sure you will agree if you take the time and trouble to study them thoroughly. In any event, it is certain that the work was done just as well as all the gentlemen engaged in the work could do it, for they worked nights, days, and Sundays for months.

First of all, as to the bill that is before you, from the standpoint that I shall speak upon it, were you not charged with the responsibility of producing a measure which is expected to be a model for legislation throughout this country? You have only a short time at your disposal if the bill is to be reported during the present session, and I can express my regret that this responsibility has been placed upon your shoulders; but it is so, apparently, and we shall have to proceed to discuss it.

First, aside from that responsibility I have only a few suggestions to make. Just a few slight amendments of the bill, if you would prevent it being positively mischievous in any important respect.

Mr. HENRY. Just why did the Armstrong committee refuse to perfect a complete insurance code?

Mr. DAWSON. I thought I had explained that, but I am very glad to restate it. You understand, of course, that the advice of their senior counsel—not senior in age, but in responsibility—was that it was necessary for the committee, in order to do this work, to lay down some principle upon which it would proceed. The Senator and myself had worked for weeks upon the preparation of a complete insurance code, and I will mention a few features which it had in it which do not appear in the bill. The New York law is very imperfect

about the protection of beneficiaries. The present life policies are made payable with the right to change the beneficiary at will. The effect of that is that the policy holder has in his hands what is known as a general power of appointment, and that is held to be absolute property and destroys the protection of his beneficiaries against claims of his creditors. We had framed in the code something covering that.

Not a member of the committee had any objection to it; but, taking into account the resolution under which the committee was appointed to make certain investigations and to recommend changes in the insurance laws of New York, and taking further into account that in all matters that were not covered by the evidence in any way, they would have proceeded purely upon the advice of their counsel, it was recommended by Mr. Hughes, and in the most positive manner, that the principle should be adopted that we should not attempt to produce a perfect insurance code, but merely to cover those things in the code which the testimony taken by the committee required should be amended. That was the principle, and it is right and it should be brought out very clearly, because otherwise you might easily be misled. There are many things that should be in a perfect insurance code that are not in the Armstrong bills.

Mr. HENRY. We have probably thirty days to legislate on this question, and I suspect that few of us understand much about an insurance code. Would not that be rather a short time for this committee to frame and complete an insurance code, when your committee worked for months and months and did not see proper to go into it?

Mr. DAWSON. I will reach that point a little later in my statement, and if you will permit me, I would rather defer the matter until I reach it in the regular order?

Mr. HENRY. Yes, sir; certainly.

Mr. DAWSON. First, as to the amendments which seem to me to be absolutely requisite if your legislation is not to be actually damaging in some regards, and which I hope Mr. Ames will deem proper to take into consideration and cause to be put into your own bill or have changed in this bill. I pass to page 10,, lines 16 to 23. I do not know that this is the first one I should have come to, but I will come to it first. This has to do with publicity, and before taking up those particular lines I wish to say that it very greatly gratifies me, as it must all the members of the Armstrong committee and their counsel, that practically the entire actuarial profession and very nearly all the earnest men engaged in life insurance throughout the country, whether as State officials or as officers of companies, have approved the action of the committee with regard to publicity as both right and proper.

In this particular section, section 11, an exceedingly important change has been made from the provisions of the Armstrong bill. That change was made unquestionably largely because the mode of valuation provided in the Armstrong bill was omitted from this bill, the mode of valuing policies, which we will discuss more fully later. The Armstrong bill provided that there should be a gain and loss exhibit in much the language that appears here, but that the receipts on account of the "loading" and "margin," as they call it, according to the select and ultimate method on first year's premiums,

should be set aside and individually stated, and that a certain class of year's expenses should be separately stated likewise.

The ACTING CHAIRMAN. Will you please define the select and ultimate method?

Mr. DAWSON. I will reach that in the regular order. Meanwhile I will say that the purpose of the Armstrong legislation concerning the select and ultimate method of valuation was to provide a minimum standard of solvency, under which any company that qualifies is certain to be solvent. It qualifies by its resources being of the proper quality, etc. This is the proper method of valuing policies. It takes off of the usual reserves charged by the method in use in Massachusetts the present value of the gains because of lower mortality during the first five years of insurance, which are due to getting the new business and paying for the medical examinations. In other words, it practically offsets against the expenses of procuring the business, the very large advantages that the procuring of business brings to the company, namely, that it will have a lower mortality upon those lives than upon other lives of the same ages for a limited period. That is the effect.

I want to say that I am merely speaking of the changes in this bill that ought to be made as a matter of fairness and decency, and in order to prevent its being vicious. Nothing is required in it as it stands, except what is known as the gain and loss exhibit. It pays no attention whatever to the distinction between initial expenses, the initial cost of getting the business on the books, and the taking care of it afterwards.

Under this bill as it stands there will be two kinds of companies doing business in the District of Columbia. One of those will qualify under what we will call the present Massachusetts system, where they charge the same proportionate amount for reserve the first year as they do every other year and treat the business as if they had no more expense the first year than any other year. A large number of the companies will continue undoubtedly on that basis, no matter what kind of laws you pass. Another long list of companies will qualify under the preliminary term provision, which, I am sure, was explained to you yesterday by several people; and under that provision they have purposely made, by the selection of a plan of valuation, no charge against their business at the end of the first year at all, and they thus have made very large and very elaborate provision for the first year's expenses.

Whatever system of valuation you adopt, as a matter of decency and in order that the information which you bring out may be of use in the future to make your bill at some time a model bill, if it is not made one now, you should require each company, operating upon whatever plan it does actually operate upon, to report the loading in first premium and what proportion it used for initial expenses. That means that you should require that in the gain and loss exhibit the facts concerning the gain and loss on the new business of the year should be shown, as well as the facts about the gain and loss on the total business. What I am suggesting to you is the kind of information that the Armstrong committee demanded and called out in its investigation, and which, I know, interested every one of you who has read the papers—to discover that the most economical were using all the way from 35 per cent to 40 per cent beyond all the margins

they had to use, and the worst up to as high as 200 per cent, 300 per cent, 400 per cent, and, in one case, 460 per cent of the margins.

Mr. BIRDSALL. That would be a way of arriving at the actual cost of every policy?

Mr. DAWSON. I think it would help to do so. It would not give, perhaps, the absolute cost, but it would give it approximately. It would show as to preliminary term companies whether the company was living within the abnormally high provision it had made, and I may say to you that the Armstrong committee did not find a single one that was, except a little institution down in Philadelphia, one of the oldest, that is conducted for Presbyterian ministers and gets its business very cheaply—that is, among the preliminary term companies—that was the only one reporting to New York. There are others, perhaps, outside. I may say that the commissioner of Wisconsin called out the same information a year earlier, and he found among all the companies in Wisconsin only two that could qualify in the same manner.

Such a first year gain and loss exhibit, without regard to the select and ultimate method, saying nothing concerning it, has been prepared by me and adopted by the royal commission on life insurance of Canada, which is now investigating all the companies in Canada and under which I am serving. I shall leave a copy of it with you. I do not claim that it is perfect, but it is simple, and it does show by items where the profits and losses are, and I may say to you that the first company we investigated in Canada was found to have sunk two-thirds of its annual profits in the losses on new business, year by year. We also found that if it had not had speculative profits—that is, the marking up of securities or the sale of securities for more than they cost; if they had gone the other way—no surplus would have been available for the policy holders. You understand, of course, that is only an apparent, immediate loss. It is possible, if the company makes money on the same policies as they get older, that they would be able to make good that loss; but the facts should come to light.

Mr. HENRY. Do you offer that as an amendment to this bill?

Mr. DAWSON. I suggest that you insert the words "the loading on premiums for the first year of insurance received in said year and the net saving upon expected mortuary losses on policies issued in that calendar year." Those two things, and the loading on the first year's premium of that amount are literally all the money that any kind of a company, except the company operates under the select and ultimate valuation, whether it be preliminary term or not preliminary term, has provided out of the first premium collected to pay the expenses, and according to its own method of valuation, that company is taking all the additional money out of the profits, and in Canada if the company was operating an annual dividend basis it could not carry on its business and pay for new business, as it is paying, because it would not be able to pay annual dividends, in point of fact, for about seven years after it issued the policy. It is information of this character that you ought to get.

I will pass over to the valuation section, on page 16, and as to that I have two suggestions to make, possibly more, two suggestions as to the first sentence on page 16. First of all, you will observe that the provision is made that if a company is changed from an assessment

company to a regular company its assessment policy shall be valued as one-year term insurance—that is to say, every year it shall be treated as merely an insurance for that year, although assessment policies are not written as one-year term insurance. One-year contracts are written with regularly increasing premiums. An assessment policy calls almost necessarily for what purports to be a level assessment. They ought not to be permitted to qualify as regular companies, so long as they do not revise their plans and readjust the policies they already have outstanding, which it is within their power to do, and get them on a sound basis. I say that deliberately as a result of a rather long practice as consulting actuary, and it is a change of position.

There was a time, some years ago, when I thought the other way, and I say that to you for this reason: An assessment company that changes over to a regular company without readjusting its assessment business, both menaces the safety and soundness of the old line business it is putting on its books, and in addition to that it is a grievous injustice to the policy holders. I think I can make it perfectly clear to every one. This alleged one-year-term contract, as it proved in some of the New York companies, permits them to run on without increasing the assessment on a man until he gets to be 70 years of age and then it jumps to the high rate at that age, and is on an increasing basis which absolutely becomes prohibitory in a very few years. Now, had that company been compelled to readjust its policies before it could qualify as a regular company it would have had to go to the policy holders and explain the facts and bring about a change of the policies to such forms that men could afford to carry them, and there would have been no such hardships created as will run on for years in the history of that institution.

In addition, we have in the State of New York another assessment company which, before it adjusted as a regular company, had only made some small experimental readjustments and made use of the one-year-term valuation privilege to become a regular company; and, while not mentioning the name of the company, it was brought out clearly in the proceedings of the committee and every person here will easily recognize the company, it is notorious throughout the country for its bad payments, it has been preserved merely by the tremendous intellectual force of one man, its vice-president, and in point of fact it should have been buried long ago, perhaps, and all of that could have been prevented if the laws of New York had at that time required the company to put all its business on a sound basis when it readjusted, when it became a regular company. You will find in section 52 of the Armstrong bill—that is, for the new laws of New York—that the members are permitted to change an assessment company to a regular company, but only on condition that it is a complete change. This is the language of the statute in that regard:

But no life insurance corporation shall hereafter be permitted to avail itself of the provisions of this section unless it shall hold for all its outstanding policies or certificates assets equal in value to the minimum reserve required by section 84 of the insurance laws.

The minimum reserve is something that I am going to explain later. I am suggesting this now merely to prevent this bill being a vicious measure. The words “shall be valued as one-year term for the first

year of insurance" should be put in the bill. Otherwise you will find some companies trying to value it for two or three years.

Mr. AMES. That amendment you will find on page 16, lines 4 and 5, and on page 2 of the notes.

Mr. DAWSON. Yes, sir.

Now, I am going to talk about one thing that you need for a model code at this point, and which I think should be brought to your attention. Lines 12 to 18, on page 16, provide for the value of risks other than life. This paragraph provides for the charge of 50 per cent of the full annual premiums as the reserve against all classes of insurance except life. I have a few words to say in regard to fire insurance. Fire insurance companies use for expenses and profits on the average about 40 per cent of their premiums, and 60 per cent is about what is required to pay losses. I think 60 per cent is a little high, if anything. That is true in this country and in other countries. This all means that when the risks, on the average, have run halfway, only 30 per cent—one-half of 60, not one-half of 100—is needed to meet their ordinary risks; and practically in all countries in the world, except Canada and the United States, that, or something like that, is what they do; that is, they require the company to carry 30 or not more than 40 per cent reserve instead of one-half of 100—that is, 50 per cent.

I think it may have been a puzzle to most of you to understand how it happened that when the Chicago fire broke out that our companies all over the United States went down and the British companies came up smiling and paid their claims. They sent a lot of money over from Great Britain and earned the good will of the Americans, and for years past practically the British companies have had the call on our business. It was not that the British people were any more willing to give up money than the Americans. It was not because they were any better insurance men. It was this reserve law that made it possible for the British companies to pay. They drew their reserves down to 30 per cent, if necessary, and if they needed to put up a little money they did so. That is what saved the British companies, and that is what carried down the great companies of this country. We are faced to-day with a disaster compared to which the Chicago fire was absolutely nothing.

The ACTING CHAIRMAN. What was it that saved them?

Mr. DAWSON. The fact that they were only required to hold 30 per cent reserve at home instead of 50 per cent. We are confronted with a similar situation in this country. I think there is scarcely a fire company in the United States of any importance and doing an active business in San Francisco that knows where it stands and knows whether or not it will be solvent when it settles its San Francisco losses. Some of the largest companies are trembling. One of the Hartford companies had to call on its shareholders for nearly \$4,000,000 to meet the claims—additional capital and surplus.

Mr. ALEXANDER. You mean the claims in San Francisco?

Mr. DAWSON. Yes, sir.

Mr. ALEXANDER. That has already been done?

Mr. DAWSON. Yes, sir. I call your attention to this because you are talking of making a model bill. I want to say to you that there are two kinds of reserves in fire insurance that should be taken into consideration. There is the ordinary reserve that meets the

usual claims—the usual running claims that average about the same year after year—and there is the extraordinary reserve that ought to be accumulated against the conflagration hazard, and when it has been accumulated against the hazard, then, when the actual conflagration loss comes, it should be permitted to be pulled down and be used to pay the claims and then gradually be accumulated again. That is common sense. You know the way they are raising the rates, not because the hazard has increased, but to restore the surplus, which is the only means of creating a conflagration reserve. They are getting you and your neighbors and your friends to pay the higher rates of premiums in order to maintain this 50 per cent reserve and in addition to accumulate a conflagration fund.

Mr. DE ARMOND. Is there not this further and additional reason, that if the people take out insurance now they will pay a part of the loss?

Mr. DAWSON. Yes, sir. Now, let me state further, for I have not given you any idea about this section. I suggest that if a model code is to be drawn at this time you should provide that fire insurance companies should carry a reserve of 50 per cent of the gross premiums, just as you have, and you should provide as to new companies that they should have this reserve in five years, the first year to carry 30 per cent reserve, and in five years to bring it up to 50 per cent by equal gradation. You should further provide that the extra 20 per cent over the necessary 30 per cent should be a conflagration reserve, and whenever conflagration losses were met they should be permitted to draw on that reserve. That would allow a company to pay those losses, and then it could start again on the reaccumulation of the money during the next five years. By doing that, gentlemen, you do not do anything that impairs the strength of these institutions; you increase the strength, because you have this extra reserve accumulated for conflagration purposes only, and that will enable the companies to pay the conflagration losses. I respectfully urge that suggestion upon your consideration.

The ACTING CHAIRMAN. Who will determine whether they are conflagration losses or regular losses?

Mr. DAWSON. It could be easily arranged, and could be defined in the bill. You could make a territory, saying that so many blocks should constitute a conflagration, and put that in the bill. Those are mere matters of detail on which I do not feel that I can offer any great amount of information.

The ACTING CHAIRMAN. Are there any laws which limit the insurance risks within a certain territory?

Mr. DAWSON. No, sir. There are not only no laws, but there are no rules by which a company can guide itself ordinarily. The creation of this conflagration reserve in the form I am suggesting to you would be an advantage to the company, because it would be known whether any district that might be stricken with a conflagration would be covered by this conflagration reserve.

The ACTING CHAIRMAN. Might it be provided by law that no more risks should be carried in any one town than are already covered by the conflagration reserve?

Mr. DAWSON. Yes, sir.

The ACTING CHAIRMAN. Would that hamper the business of the company?

Mr. DAWSON. I think, as to the old companies, it would, but I am under the impression personally that it would be a good thing.

The ACTING CHAIRMAN. You think they could recover so as to help themselves out?

Mr. DAWSON. Unquestionably; and it would open the field for new companies. If you pass this model code as to this form of valuation, you will open the door for the first time in the United States to the free organization of new fire insurance companies. I have no doubt it is a matter of wonder why the amount of fire insurance capital that is available is limited. The reason is that the companies have this 50 per cent to meet. A company starts and it has to pay out of its funds for agency and other expenses 40 per cent, leaving 60 per cent, and after its risks have been in force six months it has still to stand 50 per cent for reserve, so you see you have made it very difficult to establish a new company.

There is one important matter that I want to speak about. To-day the Continental, one of the great fire companies, is circularizing agents throughout the United States urging them to place their business in the Continental, because it is such a strong company and will come out very strong. The effect of that will be, perhaps, to mass enormous risks with the stronger companies, and that will be very bad in itself, for two reasons. First, it will give them almost a practical monopoly of the risks in the congested districts and enable them to charge any premiums they choose, and in the second place, when a conflagration comes next time down may go your strongest companies on account of the massing of their risks. There are various reasons why limitations should be had, but I am not very much of a friend of limitations.

Section 51, on page 45 of the bill, prohibits discrimination. This section also, gentlemen, is very nearly a copy of the New York law, but there is one very important omission from the provisions of the New York law. The Armstrong bill, which is now the New York law, in addition to what is contained in this bill, also contains the prohibition of a particular kind of discrimination, which I think is unlawful, but which, unfortunately, the insurance commissioners have not deemed unlawful and consequently have not attempted to enforce the law against it. In section 89 of the New York law you will notice the following words underscored:

No premium upon any policy of life insurance issued on or after January 1, 1907, shall be charged for term insurance for one year higher in amount than the premium for term insurance for one year at the same age under any other form of policy issued by such corporation.

Please bear in mind that in what I am about to say on this subject, as in all I have said, with the exception of the fire insurance matter, I have been merely talking of the amendments which I think are absolutely necessary to prevent your bill from being vicious. I am informed since I arrived that the actuaries who addressed you yesterday, said that while they did not favor preliminary term valuation they were disposed to favor it in a modified form—what is known as the modified preliminary term or the original Sprague plan. That plan is that the company should have one preliminary term rate for all persons of the same age, and that if it collects any more money than that from a man the first year, the money should go into reserve and should not be treated as available for expenses.

Now, let me illustrate this thing to you, and in doing it I want to give you a little history. "Preliminary term insurance" means that the company has by its contract agreed with the policy holder that the policy shall be treated as if it were two policies, one of which is for one year's insurance and the other beginning at the end of the first year, if the policy holder chooses to go on, as a life policy and to be a life policy with level payments from that date or to mature at the end of a certain number of years from that time, but that in each case the first year shall be "term insurance."

Now, I want to give you the effect of that. That is, as it is usually carried out and as it can be and will be carried out if you pass this bill as it stands; and don't forget that you will be saying that that is a model law. They sell one man a one-year term policy. We will take a man 20 years old, now, just as an illustration. They sell that man of 20 a one-year term policy, followed by a life policy, and they will charge him \$18.60 for his one year's insurance, which is exactly what they will charge him for a whole life level-premium insurance, beginning on the following year. Then they take his neighbor, who wants a twenty-payment policy, and who is the same age—20 years—and they charge him \$29 for one year's insurance, because he may renew that as a nineteen-payment life policy the next year at the same rate and get his policy paid up in twenty years. Then they take another man at the age of 20 again, who wants to get his money at the end of twenty years, and they charge him \$50 for his policy under the one-year term provision, and take all of it for expenses except what they have to pay claims, because they are going to give him a nineteen-year endowment the next year at the rate of \$50 per annum. Then they get another boy, who wants his money at 30 years of age—you know some of us do want to see our money once in a while—and they sell him a policy which they call a ten-year endowment policy, and they take \$100 for one year's insurance from that fellow, because they are going to charge him \$100 for nine years for the nine-year endowment, beginning the next year.

Now, look at it: You have four men, all the same age, all buying a policy for just one year, according to the theory of that contract, and you have got those four men paying all the way from \$18.60 up to \$29 and \$50 and even \$100 a year. That is not all. They started out in the State of Iowa—and there is nothing in your law to prevent it being started in the District of Columbia—with the following plan: They started a scheme to sell what they called bonds, which came to be most disgracefully known afterwards as "Iowa bonds," and the State of Iowa never suffered under a more opprobrious epithet than when its name was associated with those bonds. Under some of them they sold a policy where they sold \$120 insurance the first year, and they charged \$100 for that. Now, I just want you to see the infamous sort of thing that has crept in as the result of the preliminary term plan, and that, unless you put in this Armstrong law provision in your law here, it will be perfectly possible in the District.

MR. ALEXANDER. Would you do away with the preliminary term?

MR. DAWSON. Now, I am glad to have the question asked. I stand here before you perhaps almost more responsible for the preliminary term in the United States than any other member of my profession in the United States, or perhaps than any other man. The first regular

company to adopt the plan and continue to use it and live under it, I think, adopted it at my recommendation only twelve years ago. It adopted it because the then existing reserve conditions where the company was not allowed any more for expenses the first year than any other year—although the expenses are estimated to be from seven to ten times as much, necessarily—absolutely shut out the possibility of establishing new companies in this country.

I am not ashamed of having had a part in the introduction of that plan. There have been built up under it, perhaps, 50 companies in this country that have splendid chances to live, and that ought to live, and will live, and they would not have been built up at all if it had not been for that plan. But the plan had hardly been accepted by the institution that I speak of—which is, by the way, an Iowa company, also—before a very clever and very disreputable agent of one of the New York companies instantly thought of the idea that he could make a sort of a building-and-loan scheme out of it and get the credit of the strength of an insurance company by using that preliminary term in the bond fashion that I have explained. And he established the bond plan, and it was brought to my attention within a year after I introduced the preliminary term. The then governor of Iowa, Mr. Jackson, was president of the company I was serving. They were considering reinsuring the life risks of the company that used the plan. I analyzed it for them and explained how disgraceful it would necessarily be, and they refused to touch it. I may say that when I introduced preliminary term insurance I thought it was practically original with me. I may say also to you that the modified term plan approved by the committee of actuaries calls for this section, because it prohibits the company from charging more than one kind of a one-year-term premium.

Mr. ALEXANDER. You got that from the New York law?

Mr. DAWSON. That is from the New York law—from the Armstrong bill. As I say, I introduced the modified term plan for this country, and my clients are the only companies, with one exception, that have ever tried it, so that it is a sort of indorsement, as compared with the plans of other companies. One company right here in the city of Washington, to their credit be it said—the Masonic Mutual—after consultation with the actuary who was acting for it, adopted the modified preliminary term plan.

As I say, I thought that I was the inventor of the preliminary term, but I found out that the preliminary term was invented the year that I was born, and I found out also that it had spread all over continental Europe, and later I found that the highest authorities for it in Europe were the two greatest authorities in all Europe—Zilmer, in Germany, and Sprague, in Great Britain—and that these men were recognized as the heads of their profession; and later I discovered that they said that this plan is virtuous and proper and decent if it is applied to ordinary life policies only and if all the additional money paid in is put into reserve. That is exactly the modified preliminary term plan—that the company may treat as a term premium only such part of its premium, other than ordinary life, as are equal to the ordinary life premium, and that it must put up a reserve out of the additional premium.

Now, let us see how logical and reasonable that is. If I sell you just a life policy, and it is only going to be paid after you die, you do not trouble your head about the internal arrangements of the com-

pany and about the company's allocation of its expenses. You know that its expenses are going to be more the first year, of course. But when I invite you to buy a limited-payment life policy of my company, I ask you to do two things. I ask you to buy life insurance, and then I ask you to give me some more money to be invested and taken care of and used to pay your premiums after the ten or fifteen or twenty years is over. Is there any way in the world in which you can justify taking that money to pay expenses which that man has been invited to invest there as a commutation of premiums which would not be due until after ten, fifteen, or twenty years?

Mr. ALEXANDER. That is what led to much of this trouble.

Mr. DAWSON. That led to the improvement that I speak of. Now, take an endowment policy, and see how much worse that is. When you are invited to buy that, you are invited to buy life insurance, and then you are invited to give the company a lot more money for no purpose in the world except to cause the policy to mature at its full face value in ten, fifteen, or twenty years; pure investment. How could this Congress, how could our President, go before the people of the United States and say that a valuation scheme put into your law which would permit a company to take all the investment money paid in there the first year for expense purposes was any part of a model code or was anything but indecent and vicious? Now, this is all in confirmation of what the committee of actuaries has said.

Mr. ALEXANDER. What have they got in this bill before us touching that purpose?

Mr. DAWSON. The valuation section is on page 16. At the end of the first sentence on page 16 it reads:

All policies purporting to be preliminary-term policies shall be valued as one-year term policies.

And the actuaries' committee has recommended, and I do also, the additional words "for the first year of insurance."

Mr. AMES. That is the amendment they have before them.

Mr. DAWSON. It is not the valuation section, but the discrimination section, section 51, where I recommend you to follow the language of the Armstrong committee, which will prevent the company from taking that first year's premium. Now, with those words I have completed entirely my statement. I think that provision will go at the very end of your section all right. You have got much the same thing there, at the end of section 51, "any valuable consideration or inducement not specified in the policy contract of insurance."

Now, I may say in that connection that personally I have never had the slightest doubt that even the section, as your bill stands, if the commissioners would ask the courts to construe it, would be construed by them to prohibit such discrimination as I have been describing; but in getting up a model code, when you remember that every commissioner in the United States has construed it the other way and the courts have never had a chance to construe it at all, it seems to me it is very plain that it is your duty and your privilege to shut out such abuses.

Mr. O'BRIEN. I want to know if with that amendment to the discrimination section you consider that the preliminary term in modified form is satisfactory?

Mr. DAWSON. The preliminary term in that form is, in my judgment, a moderate, reasonable allowance, gives a reasonable, moderate allowance for the first year's expenses, under which I know the companies can live and get good business, and which is certainly a great improvement over the other.

Mr. O'BRIEN. That brings you back to your original idea of allowing the companies reasonable expenses?

Mr. DAWSON. Yes. Now, I have absolutely concluded everything that I have to say concerning your legislation from the standpoint of its being made merely not a vicious measure. I have nothing further to say on that point.

Mr. BIRDSALL. Do you not think the exclusion of any person who may be interested in insurance companies may be vicious?

Mr. DAWSON. Interested in what?

Mr. BIRDSALL. In other words, this section 5 provides:

No person shall be appointed who has any official connection with an insurance company.

That may be all right, but it goes on:

or owns any stock in such company or is interested in the business thereof, except as a policy holder.

Now, the objection was made yesterday that that would probably exclude any person competent to handle the business from taking the office.

Mr. DAWSON. I think that is almost the exact language of the New York law. Here is the language there:

Neither the superintendent nor any deputy nor employee shall be directly or indirectly interested in any insurance corporation except as an ordinary policy holder.

I have not heard of there being any such question, and I do not think there will be.

I am passing now into a question of professional ethics, and I hope that my brothers in the room will forgive me for doing so, but I have personally long taken the ground that grave abuses have arisen from permitting men of my profession to be employed by the Department when they were also employed by the companies, and particularly when they were employed to examine companies that they were themselves consulting actuaries for. I have twice been asked to do that by commissioners of very high standing and of personally high moral views, and have been almost abused because I would not examine my own clients. Now, that can not happen under this law. It never has happened since this law was passed in New York.

(At 12.20 o'clock p. m. the committee took a recess until 2 o'clock p. m.)

AFTER RECESS.

The committee reconvened, pursuant to the taking of the recess, Hon. Richard Wayne Parker (acting chairman) in the chair.

STATEMENT OF MR. MILES M. DAWSON—Continued.

Mr. DAWSON. Before the recess, Mr. Chairman, I had reached the point of discussing a model bill. I would like to say here that the fire insurance situation calls for action, and I recommend you, for

one, to amend the District of Columbia laws regarding fire insurance reserve.

Now, I am coming to the question of the model insurance law, and for the information of the committee, and before proceeding to discuss it, I wish to call your attention to some language from a document which I think you can not very properly decline to take official notice of. It is sent out by Charles W. Scovel, the president of the National Association of Life Underwriters, which is an association of the associations of life insurance agents through the country. In that, after saying some other things about the Armstrong bill, he says this:

We all recognize gladly the valuable service rendered, as investigators, by the Armstrong committee and its able counsel; but no thoughtful mind can fail to see that, as legislators, their work was done under such conditions of excitement and haste as to make difficult, if not impossible, the solution of vast, complex problems, in any permanent shape.

Farther in this, after speaking of the general situation and the different instrumentalities which have brought about the introduction of the bill which is now before you, they say: "This looks more like due deliberation." And they go on to give you praise, to give the different parties connected with the Ames bill praise, which I am sure will make the gentlemen blush, because they realize that it is not deserved. The Armstrong committee was in session four months in its investigation. They were in session pretty constantly for three months in the work of framing the bill as it finally went into the legislature. After it had gone into the legislature finally, as the result of all sorts of conferences and the consideration of all kinds of suggestions brought from every quarter, after more than three months spent in constant and almost intolerable toil, day, night, and Sundays, on the part of the committee, its counsel, and its actuary, they brought a bill into the legislature and it was thrashed out for several weeks before it was passed, and in point of fact probably no insurance legislation in the United States has ever received more careful, persistent attention in its making, and on that account I am satisfied that most of you will not be satisfied that the result which you have before you in the perfect form that has been under discussion is the work of due deliberation; but the work of the Armstrong committee was hasty.

I call that to your attention, however, not because of the language I read, but because what is being here proposed is already being set up by the writer of this letter as a method of destroying the Armstrong legislation in New York; and you have that situation to deal with, that while you have the duty imposed upon you in a very unusual manner by the President as well as by the action of the gentleman who introduced the bill, of producing a model bill, you have the peculiar condition imposed upon you also that you are going to have the strongest possible influences brought to bear from all parts of this country on the part of companies and individuals who do not want the right thing done, to get you to destroy the work of that committee, and I feel it absolutely my duty to call that fact to your attention. The movement is going to be widespread through the country. It amounts to a conspiracy, a conspiracy which I intend to open up to you as I go along.

Now, regarding the model legislation: I am not at all sure that we

can have model legislation anyway, but it is certainly worth the trial. If you do undertake it, however, then it is not a mere question of amending the bill that is before you so as to get rid of the things that, if they are not touched and corrected, will be vicious in that measure, but it is to bring it up to the highest level of existing legislation and also to the highest level of proposed legislation. The Armstrong measures do not purport to be a model insurance code, not because they were not believed by the committee which created them to be good laws, but because there were many things which should be in a model insurance code which were not put into those bills. The question was asked—and I dodged it at the time—whether, in my judgment, the committee could report such a model bill at this session of Congress—by “session” I mean merely before the vacation—with a chance of the same being carried. I have no hesitation in saying that if the legislation proposed by the Armstrong committee was hasty legislation, it must be manifest that the Judiciary Committee of the House of Representatives, while I realize that you are all much more experienced legislators, would certainly have its hands very full to turn out a bill which not only embraced the special things in the Armstrong bill, but should also embrace all the things that should be in a model code of insurance, in the short time before the adjournment—say, about two weeks.

Mr. ALEXANDER. Then, if I understand you, this Ames bill does not come anywhere near your idea of a model bill?

Mr. DAWSON. It certainly is far short of it.

The ACTING CHAIRMAN. I understand you are going to come to the point about what you want to have in and what you want to have out?

Mr. DAWSON. Yes.

The ACTING CHAIRMAN. We would be very glad to have you do that at once, because this general discussion as to what other people are doing and as to whether there is a conspiracy could be carried on for a great while. It is not to the point. We would like to have you come to the point as to what you want in the bill and what out and why.

Mr. DAWSON. Of course I have to submit to your ruling, but—

The ACTING CHAIRMAN. I am not making any ruling. I am only submitting it to you.

Mr. DAWSON. Yes; that is all right; I was answering a question which was asked me. It is essential to the model bill, and it is proper that this committee should have this called to its attention if it has not had its attention called to it before, that the way this is being construed throughout the United States is that it is meant to institute a comparison with other legislation to the disadvantage of the other legislation.

The ACTING CHAIRMAN. We are not instituting any comparison.

Mr. DAWSON. But it is being instituted.

The ACTING CHAIRMAN. We are very humble about what we do, I am sure, and we are instituting no comparisons.

Mr. DE ARMOND. I think this is important enough to get information on. If it is a fact that any persons or interests are endeavoring to use this committee and this Congress for the purpose of breaking down what is good and wholesome legislation in New York we certainly ought to know it.

Mr. DAWSON. The document does not belong to me, but with the consent of the gentleman who has it I was going to present it to the committee. But I will drop it.

The ACTING CHAIRMAN. If Mr. De Armond wants to go ahead, why, go ahead. I am not the committee, and I am quite ready to go ahead with anything that the committee wants.

Mr. DAWSON. I do not want to antagonize the views of any of the committee in my remarks this afternoon, and I hope that you will believe that I realize that I am trenching very heavily on your time.

Now, as to the model legislation, it certainly puts upon this committee the duty of going much further than would be merely necessary to cure vicious things in the bill as it stands, which is all that I have talked of up to the present time. I have no hesitation in saying that, even if you make the corrections which have been suggested and have been recommended by others, so that your preliminary term valuation provision is not vicious, you have still fallen far short of what you should do about the matter of valuation, and I will confine my further remarks concerning this subject to that. I will do it, not for the reason that there are not many other subjects that I ought to suggest to you, but that I can not accept the chairman's suggestion to cover all these matters, because it would take far more time than you could possibly have at your disposal for me.

Mr. AMES. Will you pardon an interruption just here, before we get too far away from the subject? If this committee would pass a perfect code, and it would pass Congress at this session, would not that code, if adopted by the several States, interfere with the operation of your Armstrong report? Is that the proposition you are making to the committee?

Mr. DAWSON. Not at all. In the first place, I do not believe it conceivable that there should be such a thing as a perfect code, and if there were a perfect code adopted in this committee I have very little fear that it would interfere with the Armstrong committee in any particular.

Mr. AMES. You said that there was a conspiracy, and I supposed that you might consider that I was one of the arch conspirators.

Mr. DAWSON. No, sir; I said you were not. The conspirators are the people who are managing the National Life Underwriters' Association of the United States, and the reason for their conspiracy I intend to open. Gentlemen, a great many evils were exposed by the Armstrong committee, but the most serious evil in life insurance in the United States for at least twenty years has been the agency commissions in the business. The agency commissions of the life insurance business during the last twenty years, during all of which I have been engaged in the business, and during the first ten years of which I was an agent, and part of the time superintendent of other agents for one of the largest companies in the country, the agency conditions as a whole have been a scandal and a disgrace, and particularly in the matter of compensation.

Now, I may appear to ramble, but I am not rambling when I give you my experience running back for ten years, when I was appointed superintendent for the New York Life for the State of Illinois. Everyone knows that the difference for the worse between the conditions then and what they have become since is immeasurable, but

even then I had a man report a business to that office in ninety days of over \$600,000 of alleged business written, which he paid for by drawing on the company, and every dollar of the premiums went into his pockets, or into the pockets of some one working with him, and there was a certainty that the best and the greater part of that insurance would lapse at the end of the year, because the company was going to ask for full premiums. These are the conditions, and they are not merely a national scandal, but they are an international scandal, and they are the principal reason why American life insurance stands throughout the world as it does to-day.

Now, these conditions grew up under that strict valuation system, which I was explaining to you, when they did not allow preliminary term. They grew up because there was not any standard by which the managers of the company could determine what was a proper commission and what was the proper cost of new business. The reason of that was this: Here was your premium with, say, 25 per cent loading, which is the same the first year as the last year. The business manager looks at it and he says, "I can only use 25 per cent for expenses?" The actuary says, "Yes; I guess that is right; you will have to put up the reserve, and pay losses, and all that." But the business manager, being a hardheaded man, knew that he could not get the business on the most economical basis under any such expenditure.

Experience has shown that to be true. The most economical expenditure for agents' commissions will not allow you to bring it that low. There are two companies represented here, the representatives of both of which have spoken on that line, and their most economical rate of expenditure is 40 or 45 per cent, instead of 25 per cent for the commissions alone, and there is no doubt, perhaps, that that is about as low as it can be to enable the men to make a decent living and to support their families properly by giving their whole time and attention to the life insurance business. And as a result of there being nothing in the nature of a business basis in the premiums and in the reserve charged and the different things that had to be done with premiums to guide a company—in consequence of that a practice soon grew up of paying not 40 per cent, but 50 per cent, 60, 70, 80, 90, 100 per cent, and more than 100.

Mr. GILLET. What do you think would be about a fair percentage to pay on legitimate business?

Mr. DAWSON. I am going to get to that in a moment, and I would like to answer it in my own way because it is part of what I am going to give to the committee. ¹

Mr. GILLET. The business must be secured in some way.

Mr. DAWSON. I believe that I will begin to answer that question right now, by explaining the so-called select and ultimate method of valuation. Now, what does the company get when it gets a thousand new lives? Wherein is it benefited above having a thousand old lives? Simply by the fact that these men have been freshly examined, and for a few years they will not die so rapidly as men of the same age who have been five or six or ten years insured. There is a further advantage in that the expense to the company will be spread over a larger number. That advantage is not worth very much after a company reaches a certain size, because you will find

that the rate of expenditure of the two companies that I spoke of, both of them moderate sized companies, is lower than that of the biggest companies in the country. That leads to the conclusion that the size does not always make a lower rate of expenditure.

What is the consequence of all that sort of thing? That that company can not afford to expend more to get that sort of business than, first, the loading on its first year's premiums, and second, the present value, on a conservative basis, of what it will gain by the fact that the persons insured do not die as rapidly as those who have been insured longer. If it does more than that, it pays out something that has got to come out of the dividends of the policy holders of the company; and I do not suppose there is a man within the sound of my voice who has not had the experience of those rapidly diminishing dividends, which have been very largely due to the desire to do new business at any cost.

Now, the select and ultimate method has a very direct connection, therefore, with what is proper and decent in the matter of the cost of new business. It has not been until very recently accepted as a guide by any company, but the modified preliminary term plan, so called, gives almost the same provision, and clients of mine that have employed that plan have in some cases, even in these wildly competitive times, got on within the provision safely and with good margins, and one of those companies is represented here to-day by its vice-president.

Mr. AMES. Will you tell me when some company first adopted this method?

Mr. DAWSON. Which one do you mean?

Mr. AMES. You said that it was only recently adopted.

Mr. DAWSON. The select and ultimate?

Mr. AMES. Yes.

Mr. DAWSON. The select and ultimate is now regarded as the guide for all companies in the State of New York by law.

Mr. AMES. Yes; but when was it first adopted by anybody?

Mr. DAWSON. It was adopted by some of my clients as soon as it came into existence, as the limit of what they could pay.

Mr. AMES. How long ago?

Mr. DAWSON. The method was only devised about four years ago, so that it can not have been very widely adopted.

Mr. AMES. Since, what companies have adopted it?

Mr. DAWSON. I think Mr. Baldwin can tell you about that.

Mr. BALDWIN. It was adopted by us January 1, 1903.

Mr. DAWSON. Now, to proceed. The New York committee had these two different methods before them. They had them fairly and frankly, mainly as the result of testimony given and not as the result of the advice of their consulting actuary, and I cared very little which one they adopted. It was of no special importance.

Mr. AMES. I would like to interrupt again, if I may.

Mr. DAWSON. Yes.

Mr. AMES. In drafting a new code, a model code, would you deem it advisable to take any method that was adopted by, say, one or two or three companies out of the 500 or 600—perhaps not as many as that—but adopted and used by so small a minority of the companies as a standard for a model code?

Mr. DAWSON. I am glad to have the question asked, because it brings up a view concerning a model code that I would like to say a few words about. If your model code is to be a real model code it will be probably what no company in the United States wants. If it is to be simply what the majority of the companies want it will be what the life underwriters' committee is asking for. It will be something to be avoided instead of adopted. Now, concerning this matter, is it not true, let me ask you, is it not absolutely true that valuation ought to be divorced from what companies want, and be what is good for the policy holder and for the community at large? Is not that a fact?

Mr. AMES. I think that is a fact; but in practice we can not always have that.

Mr. DAWSON. Not always. I quite agree with you on that. Now, let us take the condition. Here is a straight, scientific formula which can not, after it has once been initiated and put into law, be deviated from. It means a perfectly definite thing, namely, that the policies of insurance issued by a company—and this is a definition of the select and ultimate method from the standpoint of valuation—shall be valued, not as if the men were going to die immediately after they are insured, at a mortality rate at which they do not die until they have been insured five or ten years, but that they are going to die about as the actual mortality rates run, and that a reserve is going to be set up to meet the actual liabilities according to the actual mortality experience. Now, if they did not have any first year's expenses than in other years, it would still be a virtuous and proper method of valuing life-insurance policies, but the other method involves a reserve which they can not have collected and which they will not need, together with the premiums they are to collect, to carry out their obligations. So that, taking it from the standpoint of what the reserve is for, which is to enable them to carry out their policy obligation, or from the standpoint of how it is accumulated, you have still got the same thing called for.

Mr. AMES. Are there any other methods by which new companies might be organized—other methods of valuation which would accomplish the same purpose?

Mr. DAWSON. There are no other methods than preliminary term and this to-day which have a fair claim to be considered. The first is based on the mere construction of the contract—on writing the contract so that by legal intentment it is exactly equivalent to another thing. It is at best a successful evasion of the existing statutes of the country. Of course you, by your bill, do not make it an evasion, because you authorize it, but it is based, notwithstanding, upon a purely artificial distinction. The select and ultimate system is based upon a hard fact, which is the fact that men do not die at first as fast as they do later.

Mr. AMES. Is not that fact, as a matter of fact, the reason that your mortality table is not higher?

Mr. DAWSON. Only on the first five years of insurance.

Mr. AMES. Your table is higher than it should be, so that the table is incorrect.

Mr. DAWSON. The American experience table is incorrect as applied to the first five years. We corrected that in New York by changing the rates for the first five years' insurance. A table that is conceded

to be approximately correct, that is exactly what the select and ultimate is. Now, you will find that it is immensely harder to understand the preliminary terms, and especially the modified preliminary term, that select and ultimate appeals to the reason of a man more, that it is not anything but simply the correction of a mistake in valuation. It is simply saying, "We will not cause a company to be charged with a liability that it does not owe, namely, on the basis that deaths will happen in a certain way, when the fact is that they do not happen that way." That is all the select and ultimate is. That is exactly why the Armstrong committee preferred it to the other, and they preferred it without any reference to the personal preference of the actuary who was doing it, because I may tell you that the actuary who stands before you did not care a snap of his fingers, on personal grounds, which they adopted.

I want to say to you that if you want to adopt a model insurance code I have no hesitation in saying that you ought to frame it with utter disregard of the preferences of institutions or individuals. Of course the preliminary-term companies will not want it. They will not want the modified preliminary term, either. The other companies are not going to care anything about it either. They will put up a higher reserve. Of course the law never keeps a company from doing that. So they will not bother about it either. It is not going to be a pleasant thing to do, but, it seems to me, it is a duty, and I do believe you will be able to make the people of the country see that it is just and fair; and I honestly believe that if you leave the preliminary-term provision in your law, even in a modified form—it is so difficult to understand; it seems to the ordinary man so deceptive in its nature—that you will involve your committee and Congress in scandal before you are through with it.

Mr. AMES. Will you allow me to interrupt again?

Mr. DAWSON. Certainly. I am here to bring out anything that I can.

Mr. AMES. The bill as first drafted incorporated the Massachusetts law, which was opposed to the preliminary term, but the convention of commissioners in Chicago decided without exception that it would prohibit the formation of new companies throughout the West if we adopted the select and ultimate, and therefore they recommended and insisted upon the recommendation as it appears in the bill, of the preliminary term insurance, and that is the reason of its being in this draft.

Mr. DAWSON. The select and ultimate had very little chance at Chicago, owing to the fact that no one who had adopted it or who had taken the pains to go into it even as far, I may say, as I have done with you here to-day was present. My duties with the Armstrong committee prevented me from being there. And I candidly do not think that that verdict at Chicago is a permanent decision. However, if the views of those gentlemen, the Massachusetts views, reflected absolutely the views of the five companies in that State, it should have no place here on account of reflecting those views, and we should do nothing but what is right and just and fair and proper all the way.

The ACTING CHAIRMAN. What was the Massachusetts plan?

Mr. DAWSON. That was simply the old thing that existed before this preliminary term even was invented. Some Massachusetts com-

panies were finally given preliminary term privileges for a time, but with that exception the State has always refused to recognize the mere writing of a policy and calling it a preliminary term policy for a year as giving it the right to that kind of valuation.

Mr. AMES. Will you explain to the committee why the preliminary term is necessary?

Mr. DAWSON. It, or select and ultimate instead, is necessary, because the company could not out of the first year's premium put up the reserve required by the Massachusetts law.

The ACTING CHAIRMAN. Your point is that the company estimates on the present deaths, without reckoning on selected lives in the beginning or without making it a temporary term; then the first premium is not sufficient to pay the agents' commissions and expenses and the cost of insurance, and some of that expense has to be carried by other policy holders who have no part in that particular line of policies?

Mr. DAWSON. Yes.

The ACTING CHAIRMAN. I think that I have taken your point.

Mr. DAWSON. You have; very clearly. Now, I might call your attention to the fact that this is no small matter. There was testimony before the Armstrong committee that in the case of one company they had \$14,000,000 of the old policy holders' money soaked in that manner, and according to the evidence that we brought out in Canada, where I am acting as the actuary of the royal commission, the same sort of condition of affairs was disclosed.

The ACTING CHAIRMAN. The rush for new business in the last few years has resulted in loading the old policy holders with expenses that do not belong to them, and it should be prevented if it can be prevented properly by law.

Mr. DAWSON. I am very glad to have the statement clarified by the chairman. I want to make a confession before you, because I stand before you as a recent convert to this, and when I have spoken of it I do not want you to think that I have exhausted all that ought to be brought to your attention in the making of a model bill. I refer to my conversion to the limitation in any regard upon life insurance—limitation and restriction.

The ACTING CHAIRMAN. What sort of limitation?

Mr. DAWSON. I am about to explain. My conversion to anything of that sort dates from the time the Armstrong committee put in its first report. Before that committee I protested against the limitation of the first year's expenditures, for instance, up to the last moment before the report was signed and sent in and the bills were completed. The last words that were said by myself to the chairman of the committee and the committee itself were that I still felt that their limitations, and especially their limitations upon the expenses of a company, even in the modified form, were unwise and that publicity was wise.

Now, it is always wise for a convert to give his reasons why he became a convert. I will just say that my reason for being opposed to limitation is that when you have made the nature of things right the published facts ought to compel the companies by the mere force of the moral power of the community to be decent. But, gentlemen, I am sorry to say, I am exceedingly sorry to record, that the committee and its counsel were enormously wiser than I on this matter;

and while I am not a convert yet to the proposition that permanent limitation will be necessary, I am absolutely convinced that the necessity for limitation exists at this time, and that if it is omitted from the model bill you will have struck a blow at the reform of life insurance which will absolutely render them nugatory. Why? In the United States, for instance, let us take one company, one of the best in the country, paying among the largest rates of dividends to policy holders—the Northwestern. Since then they have been investigated by a committee in the State of Wisconsin, for which I was also actuary. Now, that committee brought out that last year this company lived within the select and ultimate margin, plus the loadings, according to the New York law, by the amount of more than 10 per cent of the provision; that the expenses of obtaining new business were \$1,750,000, and that the margins, plus the loadings, were \$2,000,000.

If it is true that decent, well-governed, well-established companies in this country can do this and be successful, then I would like to ask if it is not true that some of the others that are not decent and well governed in this particular ought to be compelled to do it? We found this situation. Mind you, gentlemen, when you depend on publicity you mean that people will be shamed into doing things; that they will say, "Why, in competition we can not afford to be put in a bad light." That is the meaning of it. But when you find them rushing to Albany to those hearings and urging that this ought not to be done, that publicity ought to remain, and they were perfectly satisfied to have it remain—I notice that it is not in this bill, even in the publicity form, by the way—when you find them rushing to Albany with that kind of an argument, and when you discover that all through the investigations of the Armstrong committee this high-pressure business, this disgraceful business of giving policies away through the country was going on, the same disgraceful condition that has disgraced American life insurance for years, continued, worse than before; that in the city of Pittsburg the agent of one company quit his own business in that city to take up the business of giving away life insurance in that city to the amount of millions of dollars for another company, you can see what the condition is.

In the city of Chicago one of the Massachusetts companies disgraced itself by making 95 per cent rebates while the Armstrong committee was in session. And when you find these companies demonstrating absolutely that they do not intend to be decent, when you find the life underwriters' associations starting out to fight, not anything else in the bills, but with all the force at their command—the arch rebaters starting out with this object, to fight the limitation placed on the cost of new business—and when you find that it is only a limitation to a figure higher, for the Northwestern could have paid 10 per cent more than it did pay, higher than enabled the general agents of that company in Chicago to reach \$165,000 of annual renewal income—I think you can see the seriousness of that situation. Now, gentlemen, I want to leave that with you. I do not care, really, to go beyond it. Your bill will be destructive of the best interests of life insurance in this country if you leave that evil untouched, and if you then put it forward as a model that other States ought to follow.

The present situation is that if the existing legislation in New York is left untouched—and a part of this conspiracy is that as soon as it takes effect, as soon as the next legislature sits, they will get it kicked out—but if it is retained in New York, then you have the condition that the companies in New York will have to live within that limitation, and it will mean that the companies that come into the District of Columbia and into the States that follow this “model” will go on as they have gone, in ruinous competition, wasting the policy holders’ money, making the cost of insurance greater to every man of you, and to every one of your constituents throughout the country. And all to what purpose? Not even to the enrichment of the agent, because what the agent does is to give it dishonestly away to the larger purchasers of insurance; absolutely no advantage to be reaped from it. Now, gentlemen, my conviction arises from the existence of an emergency. We are here mainly because of an emergency. The emergency does exist.

Mr. STERLING. May I ask you a question there?

Mr. DAWSON. Certainly.

Mr. STERLING. You say that this bill does not provide for any method of publicity?

Mr. DAWSON. This bill provides for no method of publicity showing the expenditure for the first year of insurance, and what the company has without taking the old policy holders’ money to meet those expenditures.

Mr. STERLING. What method would you propose?

Mr. DAWSON. I suggested that in order to prevent your measure from being absolutely vicious it would be necessary to require the companies to report what margins they do have, according to their own methods of valuation under the bill, and what they actually expend. I propose now that if this is really to be model legislation you ought to adopt the select and ultimate method of valuation, and adopt the same lines laid down in the Armstrong bills and in the laws of New York requiring them to report the loadings on the first year’s premium, and the margins given by the select and ultimate method, and then should limit them to those margins exactly as the New York law limits them.

The ACTING CHAIRMAN. I notice on page 40 of the Armstrong bill, section 89, that discriminations are prohibited as to all life insurance corporations doing business in the State.

Mr. DAWSON. That is right.

The ACTING CHAIRMAN. While in section 97, as to limitation of expenses (p. 51), it is limited to domestic life insurance corporations.

Mr. DAWSON. The limitation is as to domestic corporations as to the expenditures of the first year; but please look at page 53, the next to the last sentence. That was done purposely, and I would recommend a similar consideration to yourselves. It is not right, really, for a State to attempt to dictate to a foreign corporation. All the State can do is to say what foreign corporations must do if they stay in that State. This reads:

A foreign life insurance corporation which shall not conduct its business within the limitations and in accordance with the requirements imposed by this section upon domestic corporations shall not be permitted to do business within the State.

The ACTING CHAIRMAN. That covers it. I see what you mean. Now, is there any difference in this question of loading, etc., or rather of commissions, etc., such as a doctor's fee, for instance, with reference to very small policies? I see it says that the doctor's fee shall not exceed so much.

Mr. DAWSON. The smaller policies—that is, industrial policies—are omitted from these limitations. The entire purpose of the Armstrong committee is to deal with the expense evil in what is known as ordinary life insurance.

The ACTING CHAIRMAN. Does this cover industrial business?

Mr. DAWSON. Yes. This is on page 53 also:

This section shall not apply to expenses made or incurred in the business of industrial insurance nor, except as to the limitation of expenses for the first year of insurance and as to compensation of and loans and advances to agents or solicitors, to stock corporations issuing and representing themselves as issuing nonparticipating policies exclusively.

The ACTING CHAIRMAN. I see; right at the end of that section.

Mr. DAWSON. I think it proper to add to what I have said to you that unless you desire to use the imperfect standard policies that the New York bill first had in you ought to substitute the perfected policy forms that were actually enacted in New York. This bill as it reached me was copied from the imperfect draft, and was not as it was finally fixed. There were quite a number of corrections made in the standard policies.

Mr. BIRDSALL. What is your view as to the necessity or propriety of fixing standard policies?

Mr. DAWSON. When the idea was first suggested to me by the committee I protested and urged reasons against it. They asked me then to examine all the policies of all the companies, and I was surprised to find that the differences between them were not important and that a standard policy could be drawn, apparently, that would not be unfair to the companies and that would give to the insured the assurance that when he bought in one place he was getting the same thing as when he bought in another, and I became a convert to the idea that a standard policy was a good thing.

Mr. BIRDSALL. Assuming that the standard form adopted here in the District of Columbia should vary in some essential particular from the standard adopted in New York, would it make such a discrimination?

Mr. DAWSON. Our form in New York is imposed only on the New York companies. If you impose yours only on the District of Columbia companies there will be no difficulty of that nature.

Mr. BIRDSALL. But suppose there should be an essential difference between the two prescribed policies, would the company in New York be affected in its business at all by the policy here?

Mr. DAWSON. No, sir; your company could go there and write anything that it wanted to, or the New York company could come here and write anything that it wanted to. Our standard policy does not apply to the company coming from here there, but merely to the New York State companies.

Mr. BIRDSALL. I understand that; but there is nothing in your laws in the State of New York that would punish the using of a policy which varied from the policy which the New York companies were compelled to use?

Mr. DAWSON. It would not punish for variations from the policy there, but it can vary from the standard form of the District of Columbia as the law provides it here, provided it did not violate the law of New York. There are laws concerning the division of surplus, and so forth.

Mr. BIRDSALL. Of course, every State would have prescribed the standard form for a company doing business in that State?

Mr. DAWSON. Yes; that is correct.

Mr. BIRDSALL. And would it not be possible, and perhaps probable, that conflict might arise?

Mr. DAWSON. It might arise.

Mr. BIRDSALL. And the result would be that the foreign company could not do business in the District?

Mr. DAWSON. If the State should make it applicable to all the policies issued in the State of New York it would affect a foreign company. If it made it applicable only to policies issued by its own companies, as we did in New York, it would not affect the outside company.

Mr. BIRDSALL. Then an exception applicable to the foreign companies who come to the District to do business would save that difficulty?

Mr. DAWSON. I may say in that connection that the policy form which has been adopted in New York has been given very much more careful consideration as to the effect of every one of these provisions as a matter of law upon the interests of policy holders, I venture to say, than any other policy form ever adopted anywhere in the United States. I say this merely as the result of very long personal experience.

Mr. BIRDSALL. Would it not be better to let the foreign company do business in the District of Columbia if it complied with the law of the State of its origin?

Mr. DAWSON. I think if you would only adopt the law, leaving out foreign companies, it would be very much better. Gentlemen, I very much hope that the work of your committee will be satisfactory to you and to the country. I have finished.

Mr. ALEXANDER. One or two questions I would like to ask you. If you were the chairman of a committee to draft a model code of insurance for the District of Columbia, whom would you assemble about you, what interests, in order to get together on something that would be accepted by all the gentlemen present, or who have been here yesterday, as a proper code?

Mr. DAWSON. I think I would rather answer that in a little broader way.

Mr. ALEXANDER. Certainly.

Mr. DAWSON. In the first place, I think if I was going to advise your committee in the matter I would recommend that you defer definite action on the matter until Congress reassembles in December, and I would ask for a proper appropriation to carry on the investigation merely as to what the law should be—I am not talking about the operation of the companies—through the summer vacation.

I recommend this not only because you would get rid of all possibilities of haste and would have a proper opportunity to study this throughout all its branches and details, but because Wisconsin has a

commission of very high quality, which is now at work turning up entirely different things from what we turned up in the Armstrong committee work, and Canada has a royal commission at work on the same thing. Both of those bodies will make their report before your report will be due. Then, in addition, the superintendents of insurance meet in their regular convention in September, and the committee which was appointed at Chicago is expected to report in August, and that will be ready for the convention, will it not?

A BYSTANDER. Yes.

MR. DAWSON. Now, while I have made a very serious charge against the life underwriters' commission, or the committee who are governing it, I am very far from saying that there is anything but the very best possible motive on the part of all those gentlemen who are members of that committee; and even with those gentlemen it is only their pocketbooks which they are thinking of, and men are excusable, I suppose, for thinking of that. All the things that will take place within the next few months, all the things that are errors of omission or commission, will come to light by the time of the convening of the next session. Before your report would be made even the elections under that disputed election provision will take place. You will have an opportunity to get a much more mature view, to take up each section of this bill by itself, as these gentlemen here representing the actuaries' committee know that the Armstrong commission did. They spent not even an hour or two hours only on the whole bill, but they spent hours, if necessary, on a single paragraph of the bill. For it is just that kind of microscopical, anxious, careful, thorough consideration that is necessary to make even a decent bill on this subject, let alone a model one.

MR. ALEXANDER. You have not answered the question yet.

MR. DAWSON. I am sorry. I tried to.

MR. ALEXANDER. Who would draft such a code that would take in all you said?

MR. DAWSON. The best furnished man in the United States for the purpose is Charles E. Hughes, unquestionably, and the second is probably Senator Armstrong. But I know, without being better acquainted with you than I am, that your committee is perfectly capable of doing it, if you will take the time to do it, get the proper appropriation to do it, and give your time and attention to it, and invite from every part of the country every suggestion in writing or verbally that can be made. Get your draft ready; give it out to the public; give other public hearings on it. I am supposing that you will have got it to the point where you think it is perfect, or as near perfect as you can make it. Let every line and word of it be discussed, and every point brought out, and give time to it, and when you get through I am satisfied you will have done work that you will be proud of. Otherwise there is grave danger that the erroneous impression which I understood Mr. Ames to avow—and which I do not at all think is his real opinion—as to the proper means of having a model code, may prevail, namely, that it be simply the opinion of the majority of a group of men engaged in the business under present conditions.

MR. AMES. I think you are misstating the case unintentionally.

MR. DAWSON. I certainly have no intention of misstating it.

Mr. AMES. Not the majority, but every interest should be considered, at least.

Mr. DAWSON. There is no question of it. Every solitary interest and every solitary view, every selfish view and every other kind of a view, should be considered. If there is any virtue in the work done by the Armstrong committee, it is due to the absolutely unwearied patience of Mr. Hughes and Senator Armstrong, which caused long delays at the time, because they did not want to let the thing out until it was right; and I will ask you gentlemen who are hear to bear witness to the truth of what I say in that matter. If there were mistakes made, they were made after and despite every possible effort to avoid them.

Mr. STERLING. There is but one interest to be considered, after all, in this, and that this is of the policy holders; is not that true?

Mr. DAWSON. That is true; and yet all the persons engaged in the business represent the policy holders' interest.

Mr. STERLING. Yes.

Mr. DAWSON. The agent represents it, because he knows what is necessary for him to get the policy holder. The officers of the company are the custodians of the policy holders' money. But you are quite right that the ultimate thing is the interest of the policy holder, and that is the reason why I so realize the importance of this legislation, because under the existing circumstances in the United States there is going to be a determined and persistent effort made to revert to the old conditions—to return to the position of being allowed to take all the policy holders' money above the legal reserve and to "blow it in."

I thank you very much for your attention. I feel that I have trespassed very much on your time. I am very glad to have met you and hope that I may have the opportunity to be with you again.

————— (Name of company.)

Profit and loss statement for year 1905.

	Total.	Profit.	Loss.
1. Loading, first year premiums			
Net expected death losses in the year 1905 in respect			
of policies issued in that year			
Less net actual death losses in that year, in respect			
of such policies			
Total margins on first year premiums, 1905			
Less expenses (as per schedule) first year			
2. Loading, renewal premiums paid during 1905			
Less all other expenses except taxes, repairs and investment			
expenses			
3. Net expected death losses in 1905 other than in respect of poli-			
cies issued in that year			
Less net actual death losses in that year other than in respect			
of such policies			
4. Net expected annuity claims maturing in 1905			
Less net actual annuity claims maturing in 1905			
5. Interest, dividends, and rents received during 1905			
Less taxes, repairs, and investment expenses for 1905. \$			
Less credited to special funds in 1905			
Less required to make good the reserve in 1905			
6. Profits from sales or maturity (as per schedule)			
Less losses from sales or maturity (as per schedule)			
7. Increase of market values (as per schedule)			
Less decrease of market values (as per schedule)			
8. Reserves, released by surrender and lapse			
Less surrender values allowed			

Profit and loss statement for year 1905—Continued.

	Total.	Profit.	Loss.
9. All other profits (as per schedule).....			
All other losses (as per schedule).....			
Total profits and losses			
Net profit or loss.			
SCHEDULES—EACH IN DETAIL.			
1. Expenses, first year of insurance, to include—			
All commissions upon the premiums for the first year of insurance.....			
All bonuses, prizes awards, and allowances to agents.....			
All advances to agents.....			
All medical examination fees and inspections			
All other expenses (if any) of the new business for 1905.....			
2. Profits from sales or maturity.....			
3. Losses from sales or maturity.....			
4. Increase of market values.....			
5. Decrease of market values.....			
6. Sundry profits and losses, particularizing item 9 above			

**STATEMENT OF MR. A. A. WELCH, SECOND VICE-PRESIDENT OF
THE ——— LIFE INSURANCE COMPANY.**

Mr. WELCH. Mr. Chairman and gentlemen, at the time of the public hearings in New York the actuaries of all the different companies were asked to meet in New York to consider certain parts of the bill from a purely scientific standpoint; and at that meeting there were representatives, I believe, of 26 companies, and that body were unanimous, I think, on five or six points of the bill, and that committee appointed a committee to go to Albany, and they were asked to meet the Armstrong committee in New York, and simply as a member of that committee I was asked to come here to help this bill a little, but not to speak for it.

I do want to differ with the gentleman who has just spoken in one or two particulars. The Armstrong bill, as Mr. Rhodes and myself saw it, is an incomplete one, and avowedly so by Mr. Hughes and Senator Armstrong. Time and again when Mr. Rhodes and myself brought up sections which seemed to us to work great hardship to some of the companies, and especially to younger companies and those still unborn, for whom the committee were trying to legislate, we were told that the Armstrong bill must meet a unique condition in New York, it must be drawn in a special manner, and that on account of the conditions existing great hardships must be put upon innocent companies. That was stated time and time again, and I think it is only just to bear that in mind when the Armstrong bill as a whole is taken as a measure that has been carefully considered and might be used as a model bill.

Among the articles which the 26 actuaries unanimously agreed upon there were two which do not appear in this bill. The standard policies they unanimously agreed would not be for the best interests of life insurance, nor for the best interests of the insured. The surrender value has been modified to an extent which I think they will all agree to. The dividend clause in this bill, which at first was modeled after the Armstrong bill, which in this very particular was drawn in a way which would work great hardship to the companies, injustice to policy holders in certain companies, but was

necessary on account of their peculiar conditions, as we all acknowledged, has been remedied in the suggestion which Mr. Ames has brought to you, and the contingent reserve also. So what I have to say is almost entirely—

The ACTING CHAIRMAN. We have not had that defined. What is the contingent reserve?

Mr. WELCH. It is really the surplus of the company. I forget the number of the section which is in the bill. The Armstrong bill attempts to limit, and does limit, the surplus which a company is allowed to hold.

Mr. AMES. It is page 44, section 48.

Mr. WELCH. Requiring that it shall divide all the surplus over and above certain limits. I do not know that I have any quarrel with that as it appears.

In the limitation of expense which has been spoken of there are grounds for differing with the gentleman who has preceded me, and certainly in the limitation portrayed in the Armstrong bill. We have it from Mr. Armstrong and Mr. Hughes himself directly that avowedly it does work a hardship to a small company—a great hardship—and one that it seems as if it would be almost impossible for one or two companies to live under in New York—legitimate, good, young companies.

The section which measures the value of a policy to a company is not a scientific one, because that is impossible to gain. It is as near scientific as you can put it, but it is a matter of judgment, in which no man's judgment is better than any other man's judgment, in which another man's judgment is as good as mine; and certainly the value of a policy to a company is never, in the company, measured by its first five years' savings in mortality. The mortality savings in a company go away between the first five years. There are other reasons which make a policy more valuable. I only speak of that because it was so urged upon you at this time that the limitation of expense should be confined to the limit of five years. I do not agree with that. I do not think that my brother actuaries would do that either.

In the whole question of the model bill I think that it would require a great deal of time to draw one. Certainly I think that what Mr. Dawson's ideas were at the outset tally more with mine than his views now, that complete publicity would rectify a great many of the evils that he has portrayed, and I do not believe that any model bill should be drawn, or that there is any necessity of a bill in the District of Columbia to be drawn which would limit the expenses in the way that they have done in New York, to meet the special troubles which have arisen down there in a few companies.

That is all that I have to say to you.

STATEMENT OF MR. CHARLES W. SCOVEL, PRESIDENT OF THE NATIONAL ASSOCIATION OF LIFE UNDERWRITERS, PITTSBURG, PA.

Mr. SCOVEL. Mr. Chairman, on behalf of the Life Underwriters' Association I would like to say just a word.

Mr. AMES. You are the president of this association?

Mr. SCOVEL. Yes; and the signer of this letter which Mr. Dawson referred to. I simply wish to say at this time that I was unfortunately and unavoidably called from the room at the beginning of

the hearing this afternoon, and there seems to be some very serious misunderstanding, from what I have been told, as to what Mr. Dawson said, and I would like to have the opportunity of reading Mr. Dawson's words in regard to the Life Underwriters' Association before addressing you to-morrow. After I came in I heard reference made to a conspiracy, or something of that sort, in which the life underwriters were parties. That is wholly a misunderstanding, as I know, and I will be glad to have the opportunity in the morning of replying.

The ACTING CHAIRMAN. You can see the stenographer and get from him what Mr. Dawson said.

STATEMENT OF MR. JAMES M. CRAIG, ACTUARY OF THE METROPOLITAN LIFE INSURANCE COMPANY.

Mr. CRAIG. Mr. Chairman and gentlemen of the committee, I hardly knew why I came here at first, but I have received a very clear conception of it, and I may say that I am in very hearty sympathy with the effort which is being made for the purpose of securing a model code of insurance. As a person having had somewhat to do with the work in the office connected with the insurance laws of the several States in the Union, I have long felt that it would be a most desirable thing if we could have some uniformity among those laws, and when I learned that back of this suggestion and back of this effort stood the moral support of the committee of fifteen appointed at the Chicago convention, composed of representatives from all the States representing the insurance interests throughout the country, I said to myself, "Here is a beginning which, if properly followed out, gives promise of something for the future," and I know of no effort which has ever been made with so healthy a promise as this one. It is not the mere fact that an effort is being made in the District of Columbia as the basis for other States to follow, but the support which is behind this effort, the insurance interests throughout the country, is an evidence of the fact that if a model code is presented here it will be adopted almost throughout the entire country, and if that result should be accomplished, I think, gentlemen, it will be worth all the time and all the effort and all the patience you are willing to give to it.

STATEMENT OF MR. JOHN A. GORE, ACTUARY OF THE PRUDENTIAL LIFE INSURANCE COMPANY.

Mr. GORE. Mr. Chairman and gentlemen of the committee, I have nothing specific to add to what has been said. I believe the actuaries of the companies, and the companies themselves represented to-day by a number of actuaries, are heartily in favor of a model code. There is one thing that we feel sure of, that when this particular code is finished, if it is finished this session, it will not be model in our sense of the word. Colonel Ames realizes that, and we all do. But it is our sincere desire to have the reform of American life insurance brought about, and it is our desire not to have the pendulum swing too far the other way, so as to have mistakes made.

I should like to say that the only prominent feature now of the Ames bill that I should like to see changed is the standard-policy

feature. I should not feel satisfied to have had the opportunity to speak before this committee without saying that. I believe that a standard policy in the sense of furnishing the actual wording is inadvisable. It is the experience of probably every company in this country that if certain flaws are found in their policy, and they begin to get up a new form, perhaps a month or two months will be spent upon it, and then it will be laid aside, and then another month or two months will be spent upon it, and those who work on that form of policy have the advantage of years of experience with their company. Certain companies can afford to do things that others can not. There are companies represented here to-day that could afford in their policies, perhaps, to put a two years' surrender clause. There are younger or other companies that could not afford to do that. Some companies provide for loans in a certain way, and other companies provide for loans in a different way, and each way provides for the needs of certain policy holders. Some companies make the policy form of the policy itself a receipt for the first premium, and the agents of that company are trained year in and year out to bear that particular fact in mind.

No one finds any fault with that particular feature of the policy. But there are other companies whose agents have been with them for a generation almost, who do not make the policy itself a receipt for the first year's premium, but have a separate receipt, and their agents are trained to follow that course. Now, that will have to be changed. There will be serious mistakes, and legal questions will arise which we are not prepared to meet. I could go through this standard-policy form—the one in the Ames bill or the one in the New York State law—and find many, many things which may not be wrong, but which will cause changes in practice. Aside, however, from the standard-policy form, I should like to say that I have nothing fundamental besides the objections that have been brought in against the Ames bill.

The ACTING CHAIRMAN. As amended?

Mr. GORE. As amended. I have been fortunate enough to be one of the committee of seven actuaries appointed by the meeting of 26 actuaries in New York early in the season to work over the Armstrong bill, and I must say this for that committee, that it represented all phases of what we call the old-line business, and it was a splendid sign to see actuaries give in on certain points that they would have liked to have insisted upon, to help the general cause. I suppose there was not a company represented on that committee that did not gladly yield certain points it would have liked to have seen brought into the bill, or that did not refuse to fight points that it would have liked to have seen go out of the bill for the sake of the general cause of life insurance business, which means always in our minds the general interests of the policy holders.

Mr. STERLING. May I ask the gentleman a question?

The ACTING CHAIRMAN. Yes.

Mr. STERLING. By what rules do you determine whether a life insurance company is solvent or not?

Mr. GORE. By what rule do the companies determine it?

Mr. STERLING. Yes; or you. If you were to determine whether any particular company was a solvent company, by what rule would you

measure their solvency or insolvency? You would not hold that it was necessary that that company have a reserve—sufficient money to pay all the policies that are outstanding?

Mr. GORE. If deaths should occur in every case immediately?

Mr. STERLING. Yes. Suppose they should become liable to pay every policy in a day.

Mr. GORE. Certainly not. Our general rule of solvency would be that a company should have on hand funds enough to meet death claims.

Mr. STERLING. As they are likely to occur according to the mortuary rules?

Mr. GORE. Allowing for interest upon the funds the company has, and allowing for many details, such as being certain that the funds were all that they were represented to be in value. But the general rule would be that.

Mr. STERLING. Then what is the occasion for life insurance companies to accumulate these vast sums of money? What advantage is that to the policy holders for them to accumulate more than is necessary to meet the mortuary losses as they occur, or as they are liable to occur under the rule?

Mr. GORE. You realize, of course, that the company holding deferred-dividend policies should gradually accumulate funds that would mature as dividends at the end of various dividend periods. Companies having annual-dividend policies of course would have normally a much smaller fund for such purposes, because the dividends mature each year, and they should hold enough to pay the dividend coming due the next calendar year, judgment being passed at the end of the calendar year.

Mr. STERLING. Have not companies accumulated a great deal more than is necessary to meet all those obligations as they would naturally arise?

Mr. GORE. All companies have accumulated what is known in the Ames bill as the "contingency reserve." It is known under the same name in the New York law as it is at present—what we generally call a surplus, which is to provide, of course, for emergencies and for shrinkage in market values, for possible epidemics, for unexpected increases in the death rate. It is likely that the judgment of the officers of the company may at times raise such surplus fund, contingency fund, too high.

I beg your pardon, but it has been suggested to me that perhaps I misunderstood your question. You mean the contingency reserve, or surplus, or the actual fund held to meet—

Mr. STERLING. I may not know enough about it to ask intelligent questions; but the question occurs to my mind, Why is it necessary to have these vast accumulations of money in the hands of these old-line insurance companies? Would they not be entirely solvent, and could they not pay their obligations on their policies just as well if they had accumulated much less money than that? Even if the premiums they collected from the policy holders had been less, and thereby they had accumulated much less money, would they not be just as safe companies to the policy holder as they are now, and thus avoid the accumulation of so much in the hands of the life insurance companies?

Mr. GORE. Suppose, to simplify the question, we leave out all poli-

cies that participate in dividends and come right down to what we call a "nonparticipating basis." Now, every company should hold, regardless of any emergency fund, what we would call an "emergency fund." It should hold at any given time a sum of money which, if that company should stop doing business in the sense of getting no more new business—not stop in the sense of not receiving premiums from those who have made contracts—which, with the premiums coming in and with the interest accumulations would pay, according to an assumed death rate, all claims as they matured by death or by the maturity of endowments, until the very last person insured had been paid at the maturity of his policy, or had died. Any fund less than that would make such a company, in the ordinary sense of the word and in the judgment of all those who know about the business, insolvent.

Mr. STERLING. That is, assuming that all new business should stop?

Mr. GORE. Yes.

Mr. STERLING. Is it necessary to proceed on that basis—that is, to assume that there might come a time when all new business would stop?

Mr. GORE. I merely made that assumption to try and simplify the question. If new business comes in, then reserves must be accumulated to meet your new business as it matures.

Mr. STERLING. Yes.

Mr. GORE. For example, if a company has 10,000 persons insured, suppose it so happened that they were all 40 years old. Now, of that 10,000 perhaps 100 will die during the first year from the date we take. If they were all insured for a thousand dollars, there would be \$100,000 to be paid out; but all of those people who are insured are paying premiums, which would increase the fund. Every year certain ones would die, but the company has a fund on hand on which it is drawing interest, and it also gets premiums from those. Assuming that it does not add any more to the list, they will all finally die off, and under the existing conditions to-day each will have been paid his thousand dollars—his estate will have been paid that money—and things will work out so that at the end there would not be anything left.

Mr. STERLING. Would it not have done that if there had not been a dollar of reserve? It would have been paid out in the end, would it not?

Mr. GORE. You mean by increasing the premiums?

Mr. STERLING. That is, if the premiums had been fixed correctly in the first instance? I presume the theory is that every man pays for his own insurance, presumably?

Mr. GORE. There is one very important feature that I was just about to bring out, that if each man should pay each year an increasing premium corresponding to his increasing death rate, the plan you speak of, which is known as the natural-premium plan, would work out. But it has been found in practice that if there should be, we will say, any cause whatever to disturb those 10,000 persons, if some of them felt that the company was not safe, for instance, they could get insurance elsewhere; those with what we call standard lives would seek insurance elsewhere and the others who could not get insurance elsewhere would naturally stay as long as they could raise the money with this company, and that would greatly increase the

death rate, and for those who were left the premiums that had been set would not be sufficient.

But the point I did not make plain is that the death rate increases every year—and it increases, not in a straight line, but in a curve—until toward the end of life the increase itself is very rapid. Now, what we call the regular old-line insurance company charges more than a sufficient premium in the early years to carry the insurance and gives protection to each person year by year, and accumulates from that a fund, so that as life advances and this individual is not paying enough money to carry himself, this fund is drawn upon until it works out, and, as I said, at the end all receive in due time the full amount of insurance.

Mr. STERLING. I see your idea.

Mr. BIRDSALL. What company are you in?

Mr. GORE. The Prudential, of New York.

Mr. BIRDSALL. Do you calculate to pay a specific amount at the end of twenty years, or ten years, on these endowment policies?

Mr. GORE. Yes, sir; that is the custom of all companies that issue endowments. A specific sum at the end of that time, or, of course, in case of death, it would occur previously.

Mr. BIRDSALL. Is that a specific agreement to pay, or an estimate of what you will pay.

Mr. GORE. No; there is a face amount of the policy. Say the policy is for a thousand dollars. The agreement is specific to pay you that thousand dollars. There is what we call a participating policy, and in that the dividend is added.

Mr. BIRDSALL. Then the question of whether the premiums paid by a single individual would compensate you or not, or compensate him at the end of the policy, depends upon the manner in which you have invested the money?

Mr. GORE. Yes. There is a certain amount involved on the face of the policy.

Mr. AMES. I should like to ask Mr. Gore's opinion, if it will not embarrass him, as to the select and ultimate method of valuation of policies. I should like to ask, first, if you know of a company, before this Armstrong committee investigation, that valued policies according to that plan?

Mr. GORE. I do not happen to know of any such company.

Mr. AMES. Then it would be considered practically a new and untried scheme; or would it not?

Mr. GORE. Well, I should say not, in the sense that those words would seem to imply, because it is not like a new scheme of insurance. It is not like something entirely new in the plan of doing business.

Mr. AMES. It would be a new method?

Mr. GORE. It would simply be a new method of calculating the liabilities—what we call the "reserve liability" of the company—during the first four or five years of the history of the company's policies.

Mr. AMES. Do you think it would be a better method to follow in a model code for the District of Columbia than the select and ultimate method, or vice versa?

Mr. GORE. I must confess not to have given as much time and thought to the select and ultimate method, for this reason probably more than any other, that we have had to give most of our thought to

matters that pertained to the larger companies—to the companies that were older and more important. This select and ultimate method might be of tremendous importance to a new company. It is based upon an estimate of the saving in mortality that the companies receive, as has been explained by Mr. Dawson this afternoon, and it assumes that the saving in mortality stops at the end of five years, although Mr. Dawson has taken that as a definite and practical period, because he realizes, as we all do, that the saving in mortality does not stop at the end of five years, but, as I take it, this is thought to be by Mr. Dawson a workable period.

The companies have a lower mortality than the normal mortality possibly would seem to give them, because of the selection, on account of medical examinations. The select and ultimate table takes care of that, and its reserves are based upon it. Only new companies would be compelled to use such a table, and it seems to me that the companies that would not be compelled to use it would not choose to use it. If a new company is to be limited in its expense rate, as the New York law now provides, of course it would be, I think, impossible for a new company to start in the State of New York or to start anywhere else in this country if it intends to do business in the State of New York, without having some scheme to help it along during the earlier years, and the preliminary-term plan has been adopted by companies to help them through the trying period when everything is new, which means that everything is expensive, and the select and ultimate method is another method of helping the companies. I hope never to have to use this method, but I do not see any harm in the method.

The ACTING CHAIRMAN. How much do they reckon on—what proportion?

Mr. GORE. I believe during the first year it is calculated that 50 per cent of the normal mortality will be experienced by a company. Mr. Dawson can give it to you better than I can. Fifty per cent the first year, 65 per cent the second year, 75 per cent the third year, 85 per cent the fourth year, and 95 per cent the fifth year. Of course that is purely arbitrary. There is no company whose mortality does run along that way. Some of us might have a higher percentage some of those years and a lower percentage in the seventh, eighth, or ninth year, and it might run up to 100 per cent for a while.

The ACTING CHAIRMAN. Have the actuaries' tables of America ever been analyzed on those principles, from end to end?

Mr. GORE. They have not, as a mass.

The ACTING CHAIRMAN. I believe these tables were made up some years ago—such tables, or actuaries' experience tables, different from the old Carlisle experience tables?

Mr. GORE. Yes; but they do not represent the American experience generally. The American experience table is based on the experience of the Mutual Life Insurance Company.

The ACTING CHAIRMAN. Have any tables been made up that get at this saving with great accuracy on the second, third, fourth, and fifth years?

Mr. GORE. Not with great accuracy, because not enough lives have been involved to make the table follow evenly the law of probability; but the different companies have reported their experience, and probably every company has worked out its own experience for its own

satisfaction; but there has been no combined table showing what the result of these experiences would be in great numbers of lives.

The ACTING CHAIRMAN. Have these companies varied very much, or have they come to about the same conclusions that you have stated?

Mr. GORE. I should imagine about the same conclusions, except that the savings in most companies would cover a longer period of years.

Mr. BIRDSALL. Do you advocate any limitation upon the expenses of the first year's business?

Mr. GORE. I would not.

Mr. BIRDSALL. Do you think it would be justifiable to allow the entire premium for the first year for the expense of obtaining the business?

Mr. GORE. Will you kindly repeat your question?

Mr. BIRDSALL. Do you think it would be proper to allow the whole premium for the first year to cover the expense of securing the business?

Mr. GORE. No; I should not. That would be a matter, of course, of individual judgment; but under the present tendency of complete publicity, and in addition to that, the competition of the company, to pay the very best dividends they can, I believe that that question will not trouble the American public in the future.

Mr. BIRDSALL. You feel that it should be left to the discretion of the companies?

Mr. GORE. Yes, sir; I do.

Mr. STERLING. How do you propose to bring about this publicity? To require the companies to make reports at stated intervals, or just to permit the State or Government authorities to investigate the companies and compel the companies to disclose?

Mr. GORE. There is a section in the Ames bill providing for much greater detail in a company's annual statements which are published and sent all over the country, so that the company must show, for instance, the gain and loss exhibited, and just the sources of its profit. And it must show a number of things more than the companies have been compelled to show in the past.

Mr. STERLING. Do you think, then, that this bill provides a pretty good scheme of publicity?

Mr. GORE. It seems to me so; yes, sir.

The ACTING CHAIRMAN. Is that scheme so stated in the Ames bill as to be approved by you?

Mr. GORE. Yes, sir.

The ACTING CHAIRMAN. One of the gentlemen here said he thought it would make it too complicated. Do you think that is so?

Mr. GORE. I think the reports as brought out by this bill will probably meet the approval of the public. Personally I would not have put every one of the clauses into that section of the bill. But I believe that all the publicity referred to there is perhaps desired now by the public.

Mr. BIRDSALL. This bill provides that the commissioner may withhold it from publication or may cause it to be published in one or more newspapers. That is the publicity which is provided for by this bill, as you understand?

Mr. GORE. Yes; but the reports are also published by the State insurance commissioners.

Mr. ALEXANDER. I was unfortunately called out for a while when you began speaking. Do you approve this Ames bill as a whole?

Mr. GORE. My answer to that would be very similar to one or two other answers that I have heard since this hearing began, that legislation is probable in many of the States during the coming winter, and that it would be a good idea, such being the case, to have a bill passed by Congress that would be a fairly good bill. I believe that the prestige of that will help it along. I do not say unqualifiedly that I approve the Ames bill. I do not consider it a model bill. I believe that it would take more than a year to produce such a bill. I have heard it stated during the noon recess that if five men were chosen, the best men that could be chosen to produce such a bill, and if those five men spent a year on it, and that bill were brought here and a hearing were had, to quote the expression, "it would be shot to pieces." I believe it is a tremendously difficult thing to get a bill that would come anywhere near being entitled to the term "model." But I believe that this is a safe bill, and in view of what will probably happen, I must say that, on the whole, I am in favor of the bill.

Mr. BIRDSALL. You have discovered nothing in this bill that would be detrimental to insurance companies from your view of the business?

Mr. GORE. No, sir; I have not.

Mr. ALEXANDER. Your thought, then, seems to center on this point, that it is very desirable for Congress to pass, assuming it is possible, a bill which may possibly have the effect of avoiding vicious legislation in the States during the next one or two years?

Mr. GORE. Yes; for that purpose chiefly. Otherwise I would most strongly urge Congress to appoint some sort of a commission, possibly, to do something to perfect the bill—more nearly perfect it. Under just the conditions you name I would favor the bill.

The ACTING CHAIRMAN. Have you considered the question of a return being made to an office here in Washington? Would you regard it with favor, or as of no particular advantage?

Mr. GORE. I should think that it was of no particular advantage.

Mr. ALEXANDER. That is a good question. If there should be left out of this bill any reference to having a bureau in the Department of Commerce and Labor, for instance, which would take away any suggestion of Federal control, and a pure, simple insurance code, a model, if you please, were passed for the use of the District of Columbia, do you think that would have the beneficial effect of guiding State legislation that you gentlemen desire?

Mr. GORE. I feel on that point that it merely happens that this is the first legislative body to consider something that might approach a model bill since the insurance commissioners held their meeting. If the State of Minnesota had had its legislature take up this point first, I would have regarded it exactly as I now regard this legislation for the District of Columbia, and would favor rational, moderate, temperate legislation, for the same reason that I gave before.

Mr. ALEXANDER. Then you would be willing to have a bill of this kind passed by Congress if it left out the idea of a bureau of insurance?

Mr. GORE. Yes; I should.

The ACTING CHAIRMAN. Except in the District?

Mr. GORE. Except in the District.

Mr. ALEXANDER. Except for the District, certainly.

The ACTING CHAIRMAN. If there are no other questions, have you anything further, Mr. Gore?

Mr. GORE. No, sir.

**STATEMENT OF MR. J. H. McINTOSH, GENERAL SOLICITOR OF
THE NEW YORK LIFE INSURANCE COMPANY.**

Mr. McINTOSH. Mr. Chairman and gentlemen, Mr. Craig gave his views on the question of the desirability of legislation by Congress in the way that is now proposed, which expressed entirely my own views and which I am willing to adopt from beginning to end.

In a few words I desire to give my ideas, first, upon what is not a model code; secondly, upon what, in my judgment, is a model code, and thirdly, how I believe a model code could be framed.

The bill which you have under consideration is, in my opinion, not a model bill, because it goes into too much detail. Somehow or other the public mind has become infected with the idea that all the details of a technical and complicated business must be done under the whip and lash of legislation. We seem to be abandoning the idea that hitherto has obtained generally, that the details of a great enterprise can be left to the sense and the judgment of the persons immediately responsible for its success or failure. And now the first thought always is to rush to the legislature to get their instructions of how you shall or shall not conduct the details of your business. My ideas of a model code are suggested in some measure by my idea of the constitution of a club that I once saw. The first article of the constitution was, "The name of this association shall be," and then it gave its name. "Article 2. This organization shall be perpetual." That was the charter of the club.

Now, the proposed bill that is here contains a long section telling what sort of insurance contracts shall not be made, and we listened yesterday to a heated discussion of the question against certain plans of insurance, plans that have been adopted and in vogue for more than thirty-five years, and under which there are some four or five billions of insurance now in force in this country. And yet that plan is attacked here, and you are asked by law to change it. My ideas are that individuals should be left perfectly free to make any sort of insurance contract that suited them; that if, for instance, I wanted to make a contract with an insurance company that gave me what is erroneously called "my dividends," or, as the speaker put it yesterday, the change out of the company's pocket every thirty days, or every one year, I ought to be at perfect liberty to make that contract with the company if the company would make it with me.

On the other hand, if on account of my peculiar conditions or my peculiar bent of mind I desired to let that change accumulate in the hands of the company for ten, fifteen, or twenty years, or any number of years, the State should not come and say that I had no right to make that sort of contract. In other words, the details of all contracts should, in my judgment, be left to be worked out between the company and the individual who is making the contract with the company. Why, every day we have people come into our office wanting contracts of a kind that are not generally written by us. Only

the day before I came down here, Friday or Saturday of last week, two people came in who were partners, and wanted a policy on their joint lives. One of them, who was not married, wanted the insurance in the event of his death all payable to his mother, the other in the event of his death all payable to his wife, the survivor to take nothing, with other unusual details. The division of policy issues took up the question of writing the policy and writing it for these men in the way they wanted it, and did it, the actuaries determining the premium required to cover the special sort of risk they wanted. Let the companies make the kind of contracts the assured want to make. Leave it open to the assured to buy the sort of contracts they want. Do not say by legislation what sort of contract you must or you must not make.

Mr. DE ARMOND. Would not that bring it to the idea of your club? Would not that amount to about this: "The name of this company shall be," and then insert the name? "It shall do as it pleases?"

Mr. MCINTOSH. No, sir; I shall come to that under my second point. Under my second point I am going to say what I think the model law should be. I offered the constitution of the club as an illustration, perhaps an extravagant illustration, of my idea as to what a model law should be.

Mr. DE ARMOND. I thought you offered that as your idea of the legislation that should be enacted; first, the charter of the company, and then the declaration either affirmatively or negatively that it shall do as it pleases.

Mr. STERLING. That is the way it has got me, Judge.

Mr. MCINTOSH. When I come to the second point of my discussion I think I shall explain that.

In the second place, I would not undertake to say to the companies what money they should or should not spend, or to say to them what commissions they should pay to the agents or should not pay, or even what salaries they should pay to their officers or should not pay. I should leave all those in the insurance business just where they are left in every other business in the United States—to the judgment and discretion of the persons immediately charged with the management of the company.

Mr. DE ARMOND. Would not that leave the company practically just where your insurance company was found to be left, where your company was found, after the investigation?

Mr. MCINTOSH. Sir, I think the law should leave them just where my company was left.

Mr. DE ARMOND. What do the policy holders of your company think about that?

Mr. MCINTOSH. Our policy holders have always been, as a rule, well satisfied with the company's management. To be sure, there are exceptions; so are there in every business. There is a gentleman here who is one of the five State commissioners who spent five months in examining into all our details, and I would be willing to submit to him the question of the economy and sound management of my company; but that, I take it, does not interest this committee. I want to answer any questions that are asked. When, however, I get to the discussion of what I believe is a model law I believe all the objections you probably have in mind would be cured by the legislation I shall suggest.

Mr. DE ARMOND. That is all right. But how are you going to cure it? If you are right about it, there is no cure needed, and if you are right about it, then perhaps the suggestion is not of much practical value to this committee trying to shape legislation on that subject.

Mr. McINTOSH. I do not suppose any person who gives a suggestion here that is not a right one gives anything that is of much value to the committee.

In the next place, I do not think a model code should undertake to say what money the company should or should not spend. The thing can be got at in an entirely different way. Such legislation is paternalism. The New York State legislation is after this fashion. I did not intend to mention this legislation in New York State which you have heard so much about, but I can not help speaking of a little incident that occurred there during the hearings before the committee, the public hearings. The chairman of the committee was closely questioning a speaker. That speaker all his life long, some fifty-five or sixty years, had been a socialist, and is now. When he was pressed by questions from the chairman of the committee he said, in answer to the chairman's question, "Yes, I favor this. It is along the line of enlightened socialism. But," he says, "it goes too far." The committee, not knowing that the man was a Socialist, did not see the humor of the situation.

Gentlemen, this legislation New York State has offered—and I am glad to say they do not claim it as model legislation—is legislation that the grangers of Illinois never suggested the like of, the wildest-eyed Populist of Kansas never dreamed of. Such is now the legislation of the vaunted "Empire State" of New York.

Mr. ALEXANDER. What is that? I did not catch that.

Mr. McINTOSH. I say that is now the legislation of the vaunted "Empire State" of New York.

Again, I would not undertake by any model law to say what kind, what form of contract, the companies should make, or try to fix a standard policy, because that, again, is paternalism. But a so-called "standard form of policy" is particularly objectionable, because it is like a stone wall built across the pathway of progress.

Look over the contracts the companies have made in the last thirty years, and then compare them as they have been evolved down to the present moment, and see what that means. Suppose twenty or thirty years ago some persons had gotten together and created what they called standard forms of life insurance contracts, and the legislatures had foisted these upon the companies: Where would we now be? Take one of the contracts of any leading or recognized company to-day and compare it with the contracts written by that same company fifteen or twenty years ago, and you would hardly recognize that they belonged to the same company, the present contract is so much superior to the old.

Mr. BIRDSALL. Has that grown out of the effort of the company itself to perfect its policies, or has it come about by reason of the conflict between the legal counsel of insurance companies and the courts in their efforts to protect the people?

Mr. McINTOSH. It has grown out of a number of influences. First, on account of the efforts of the companies to perfect their contracts. Second, on account of competition. Competition is the great force

that operates with irresistible power to regulate and perfect the insurance business. And, third, of course, they are improved and fashioned to meet the decisions of the courts. Those three, and I have no doubt there are other influences that have brought about the present evolution in insurance contracts and the perfection of their forms.

But my point is, that if you had had a standard life insurance policy you would have simply had the courts construing the standard life policy as they construe the standard fire policy, and you would not have had this evolution and this great advance. Twenty years ago the life policies were full of limitations, and forfeitures, and fine print, and things that might easily deceive the policy holder. But a contract written by any progressive life insurance company to-day contains none of those things.

MR. DE ARMOND. Who got up those old contracts with the fine print and obscure clauses that may have deceived the policy holders?

MR. MCINTOSH. They were gotten up by the best lights that they had at that time.

MR. DE ARMOND. Whom were they gotten up for?

MR. MCINTOSH. For the policy holders and for the companies. For the benefit of the policy holders who dealt honestly with the company and performed their part of the contract; for the protection of the company against dishonesty and unforeseen hazards. The development of the business has thrown up safeguards against these in other directions and made it possible to eliminate them from the policy and to simplify the contract.

MR. STERLING. On that question, how many people know what kind of a contract they want to make with an insurance company? There is not one man in a hundred that knows more than this, and that is that he wants some protection against death for his family, and he does not know anything about the different contracts.

MR. MCINTOSH. You are undoubtedly speaking something that contains a great deal of truth, but if you simplify all the policies, as the companies are now doing, you get them so that an ordinary man can understand them. You take a policy written by my company, and I believe that an ordinarily intelligent man can understand that policy well enough so as to make up his mind intelligently as to whether or not it is a thing he wants to purchase. I understand when a man undertakes to buy an insurance policy he does not sit down and read it over; an ordinary man does not. But the policy ought to be in such language and in such form that they could do so and understand them.

MR. STERLING. Do you not think it would be of assistance to that man, the mere fact that a certain form of policy has been prescribed by the legislature? Do you not think it would give him confidence, and be of assistance not only to him, but to the company that insures him?

MR. MCINTOSH. I do not see how it could be. It is an uncommon thing for insurance companies, so far as I have had any observation, to get into any controversy with the insured about the terms of the contract, and that is especially so of the contracts recently made. You will find that they are very clear in all their terms. In your present form of policy, if you want to know how much money you

can borrow on it, you have those figures right there. If you want to know how long the insurance will continue in force if no further premiums are paid, it says all that right there in the table, so that it can not be misunderstood.

Let me give you just a suggestion. We will bring in a form of policy, and put it down here, to be for the future the legal form of policy. Who will determine what the form shall be of this important document? I have had experience with the preparation of one form of policy, and one only. I believe I shall take a little of your time to tell you how that was done, how that was prepared, so that you can just see what it means—the preparation of one of these policies.

When in the New York Life Insurance Company we took up the question of preparing a new policy we met in a room where the table was not quite as long as this one. Excepting myself, everybody there had spent his whole business life in the life insurance business. There were three actuaries, executive officers, and men from every department and branch of the business seated at that table. Taking up the subject, they start in on one phase of it and discuss it. Every man expressed his views, and finally they voted upon it. Then they passed to the next question, and they discussed that in the same way and voted on it, and so on through the whole contract. Then this went to the printer and came back from the printer in clean form. The men would take the form home with them and meet the next day. Maybe there was an article there that ought not to be there, or maybe a comma. Perhaps a better word or phrase would suggest itself to some one, or a different arrangement of words and sentences, as well as provisions, regulating the obligations of the contract. Every word and letter and punctuation mark was rediscussed and voted on, and the paper then reprinted and worked over again until finally gotten into a shape not quite satisfactory as a whole to anyone. This was the process employed by these experienced men, notwithstanding they had written policies before and were only changing their present forms to improve the old. This was all they had in view—to improve, liberalize, and make plain the terms of their contract. It took a period of two months doing the way I tell you to get a policy form finally agreed upon among themselves.

Mr. STERLING. Now, if the other fellow at the other end of that policy understood it just as well, it would do to talk about allowing people to take the kind of policy they want. But they did not hear that discussion. They did not know.

Mr. McINTOSH. Yes; that is all very true; but the legislature, or men who have not taken the trouble I speak of, would not be as likely to get a policy that he who ran might read understandingly as those who had, with the care I have spoken of, finally wrought it out.

Mr. PARKER. Do these advertisements issued by the various companies call the attention of the insured to the forms of the policies and the advantages of the different forms, respectively?

Mr. McINTOSH. Certainly; and the agents, too, do that.

It may not seem so, but I assure you, gentlemen, these people managing these companies are doing the best they can with them. They are not all dishonest men. They are not all trying to put up schemes by which they can deceive the unwary. You know, I have found, in

the time I have been down to New York with this company, that there were men there who believed that they were serving a high and noble purpose, as earnestly and as seriously and as sincerely as any other persons in any other walk of life ever believed themselves to be doing and were earnestly striving to that end.

Mr. ALEXANDER. Mr. McIntosh, what is your idea of the purpose of a life insurance company?

Mr. MCINTOSH. To insure lives and pay the risks when they mature.

Mr. DE ARMOND. And incidentally make money?

Mr. MCINTOSH. No, sir; not to make a dollar of money, if they are a mutual company—as mine is, I regret to say.

Mr. ALEXANDER. Judge De Armond covered the purpose of the question I wanted to ask you next. Is the purpose of protecting the policy holder the first and chief purpose, or is it for the enrichment of certain men who have organized the company?

Mr. MCINTOSH. It is primarily and, as a matter of fact, solely for the benefit of the policy holders, if it is a mutual company.

Mr. STERLING. That is, in theory, you mean?

Mr. MCINTOSH. I say in theory and in practice. You ask me those questions, and I take it you all have in mind my company, for my company has as often been at the head of the columns of the yellow journals as any other—the yellow journals that killed my late president. He was not making money out of the company. He did not use the company for his own enrichment. In season and out of season he stood for the policy holders and used his great abilities for their advantage. He died a poor man. He was a man without an extravagant habit. He was a man who never drank a drop. He was a man who had no bad habits of any kind. Nor is there a man in my company to-day, connected with it as employee, who is a rich man. I do not want to impose my company on you gentlemen. I only feel myself forced to make these personal remarks because your questions, which I welcome, drive me to it.

Mr. STERLING. You must not construe my questions as referring to your company particularly.

Mr. MCINTOSH. Now, I have said what I believed ought to be in a model statute, in this general way, that the companies should be left free to make such contracts as they could make and as the assured wanted; that the law should not undertake to prescribe any of the details of the business, but should leave that in life insurance just as it is left in any other branch of business—to the people who have immediate charge of it, and to the people who deal with them.

Now, my second point will bring out, I think, my ideas of how that can be done. That has been comparatively safely done in the past. In the last twenty or thirty years banks have failed. Out in my former town in Nebraska we did not have a savings bank left after the panic of 1893. Railroads have gone into the hands of receivers and have been reorganized. Stockholders of all sorts of enterprises have lost all or part of what they put into them. But, sirs, not one life insurance company of any considerable consequence has in that period of time met that fate. On the contrary, every one of them, so far as I know, every company represented in this room has promptly and fully met all its obligations and met them at once when they matured.

Mr. DE ARMOND. Does not a life insurance company do tolerably well when the people carrying policies in it fail and policies lapse? Is that not one of the times when they do tolerably well?

Mr. McINTOSH. No, sir; they do not do tolerably well then. You heard a while ago of the surrender value and the expression "cash surrender value" was used; but all policies have the benefit, by the way, of either a cash surrender or a continued or paid-up insurance benefit in the event of lapse. Policies written by my company give a continued insurance benefit after they have been in force three months. And, then, if you pay for a year and lapse you get continued insurance or paid-up insurance for two or three years; for this continued insurance or paid-up insurance you get the benefit of all the money you put into the company. So that there is practically nothing made by the company in that way. Companies do not want policies to lapse. If you have a policy in a good company, let it pass the day for paying the premium and you will see how they will follow after you to keep you free from lapsing. They do not make money out of it; it will cost them money to replace on their books the risk they have lost by the lapse of your policy.

Now, on what I think would be a model code. In the first place, I think a law framed for the District of Columbia should have in it appropriate provisions for the formation of insurance corporations. The details of that would be similar to the details of like laws in almost any State.

Mr. AMES. An interruption, Mr. Chairman. Does not this still provide for just such an incorporation?

Mr. McINTOSH. Yes. Do not understand me as objecting. I only object to those features of this bill that try to prescribe details. That, I think, is a legislative mistake, whether it is addressed to a life insurance company or as affecting a mercantile or any other company.

Mr. BIRDSALL. In other words, you think the Government should not act as a guardian for the people?

Mr. McINTOSH. Exactly. That is better expressed than I can express it.

Mr. ALEXANDER. As to the matter of life insurance, do the laws recently passed hamper the business of the companies if it is to be properly and honestly administered?

Mr. McINTOSH. You ask me that. I would like to take a vote on that here. I think all the insurance men here would say yes.

Mr. ALEXANDER. I am asking for information. I did not know anything about it.

Mr. McINTOSH. Those bills not only limit the amount of money that the companies may pay for the acquisition of new business, but they are based upon a theory that is fanciful instead of practical. They limit the amount of money that the companies may spend for taking care of their old business; and having limited the amount of money a corporation could spend, you would think they would be willing to let the corporations alone with that, or that they might be allowed to buy as much as they could get with it, would you not? That would seem to be fair. And yet, sir, they are not satisfied with limiting the amount of money the companies may spend, but they actually limit the amount of business they can get, and if this gentleman [indicating a bystander] or I during the year 1907 do more

than a certain limited amount of business, all the officers of our companies are liable to be sent to jail.

Mr. DE ARMOND. What kind of business is limited? Writing insurance?

Mr. McINTOSH. All business. For instance, my company last year, notwithstanding the conditions that you all know existed last year, did \$298,000,000 of new business. If during the year 1907—it is a question whether it is not 1906; that is, whether it does not apply to 1906—if we do to exceed \$150,000,000 of business, we are breaking that law. In other words, they have cut the possible business we may do in two. They have destroyed our organization. We are organized for the purpose of doing a \$300,000,000 business during the year, and I undertake to say that we can do it as inexpensively as any other insurance company in the world, and we can meet any requirements for expense that any company can meet; and yet, sir, the law says: “No, sir; you can not write that \$300,000,000 business. You must write only \$150,000,000.” In other words, the organization built up for that purpose must be disorganized and destroyed and reorganized on another basis.

Mr. ALEXANDER. What excuse did they give for such legislation?

Mr. McINTOSH. The excuse was that there was a “mad rush for business.” That was the expression—a popular expression; and whether we spend too much money or not, we must not buy too much with it. They not only limited the money we can spend, and limited the business we may do, but they prescribed the forms of our contracts. They tell us what contracts we may make and what we may not make, and they required us to pay dividends whether we have the money to pay them or not; and as the business of life insurance aims primarily to be safe, so as to meet liabilities, they limited the amount of money that we may keep for the purpose of being sure of continued solvency.

This New York legislation is the most monstrous system of legislation that has ever blotted the law books of any State or nation. And yet you have not heard anybody else say this, unless it has been some of the gentlemen who are here and really know about it. The editors of what are known as the best papers have spoken in laudatory tones of this legislation.

Mr. DE ARMOND. Possibly they may have been expressing the opinions of people who had taken out insurance and held policies.

Mr. McINTOSH. The people who take out insurance and hold policies, so far as I know, are not dissatisfied. I could go into that, but do not care to now.

Now, to come back to the kind of law that I think would be a model statute. First, I would have provision made for organizing insurance companies in the District of Columbia framed upon rational lines with a view to attract the organization of companies here. Do you know I think if there was such a law here there would be companies organized in the District of Columbia.

Mr. DE ARMOND. Have you not used rather a general expression?

Mr. McINTOSH. I am not pretending to use any but general expressions. I think companies would be organized here, because it is the seat of the Government. The city of Washington being the home office of a company would make it attractive abroad, and companies now are trying to do business all over the world.

Then my method of safeguarding the assured and the public would be a full, complete, and entire system of publicity. That, in my judgment, is the one great remedy for every ill that has been criticised in the management of insurance companies in the last year. I believe it would obviate ills in the future. Why? Because the insurance department of every State requires a company before it is licensed to do business in that State to file with it a statement of its business. They generally require this statement, in addition to being filed in the insurance department, to be published in one or two newspapers. The companies, anyway, publish them, whether required by law or not, in condensed form. The public does not so much get these reports; they are not so much interested in them; but this is the part of safety: They go into the hands of all companies, and whenever a company sees that your company or mine is doing business along unsafe lines, or has done something that they ought not to do, that fact, or a knowledge of that fact, in some way or other reaches the agents of those companies, and it at once reacts upon the company guilty of it, and they have got to cure it. It is the companies themselves. It is publicity and competition that are bound to cure all these ills, and you can let the details of insurance take care of themselves when you do that, just as you do in every other line of business.

Coming back now to the question of salaries. Suppose the salaries had been published where it is believed they were too high. The agents of all the companies would have known that. The insurance commissioners would have known it. The insurance commissioners undoubtedly would have made a point of it. Those salaries where they really were too high would have been compelled to come down. Now, that, with possibly such prohibitive legislation as not permitting officers or directors to be interested in investments of the companies or to be coinvestors with them—things of that kind—I think, would be a good measure. Publicity and a single law of that kind would have cured every evil that I can now think of that has been criticised in the last year.

MR. PARKER. What method would you have suggested so as to prevent what is called "deferred dividends?"

MR. McINTOSH. I would not prevent deferred dividends. I have seven policies of insurance, all taken out during periods of my life when I was as rational as I ever was, and they are all on the deferred dividend plan, and I would not have any other kind.

MR. PARKER. Would you have a separate publicity as to each ton-tine fund?

MR. McINTOSH. No, sir.

MR. PARKER. How, then, would the public know and how would the insurance commissioner know how much was being really held for those deferred-dividend systems, and whether there was really a separate fund or not?

MR. McINTOSH. The statement made by my company would show that. We carry the funds ultimately divisible among the participating policy holders by way of profit as a liability apportioned to the class, so that if you will take our statement as we now have it you will find that this is carried as a liability to maturing policies in ten, fifteen, or twenty years.

Mr. PARKER. Was it the custom to do that in the various tontine policies in New York ten years ago?

Mr. McINTOSH. That has been done by us during the last ten years.

Mr. PARKER. Was it done in other companies? I understand that there was complaint that it was not known how much belonged to one class of policies and how much belonged to others.

Mr. McINTOSH. I do not know. I do not know that there would be any objection to an annual accounting or a quinquennial accounting—an accounting that would not involve too much clerical work, and therefore too much expense. That would be entirely proper.

Mr. PARKER. Has not the complaint been made that those deferred dividend policies were absolutely unaccounted for until the end of this long term, and therefore nobody knew how much he was going to get, how much was accruing, how much of surplus the company was holding subject to this liability, and how much was held otherwise?

Mr. McINTOSH. Of course that complaint has been made.

Mr. PARKER. You think publicity would remedy that?

Mr. McINTOSH. Publicity would reach that; and as to an annual accounting, I suppose a section perhaps might be framed for that purpose; but not necessarily, not as paying over, but an accounting in such a way as not to involve too much actuarial or clerical work, and therefore too expensive.

The question of expense is something that these insurance companies must figure on. You may not believe it, but they are all the time figuring on it and trying to keep it down.

Mr. DE ARMOND. Are they figuring all the time to keep expenses down?

Mr. McINTOSH. Yes; all the time.

Mr. DE ARMOND. In some instances they have not been very good figurers.

Mr. McINTOSH. I think I could convince you to the contrary if I could take you around my shop.

Mr. AMES. An interruption, Mr. Chairman. In your model code what would you think of the selected and ultimate method of values?

Mr. McINTOSH. I think the selected and ultimate method of valuation is pure nonsense. It is a purely theoretical idea. So far as regards a going concern, it has no value or merit.

Mr. DE ARMOND. You would dismiss it also as a matter of detail, would you not?

Mr. McINTOSH. As Mr. Gore said just a moment ago, it would be a matter of interest theoretically, and as a matter of bookkeeping it might be of some value or merit with a concern just starting.

Mr. DE ARMOND. As I understand your theory, all that would fall under the head of detail, and you would leave it out. In other words, you would leave it to the company.

Mr. McINTOSH. I would leave it out of legislation, surely. Of course you must value the policy in order to know that you are doing business on safe lines; but I would not value them on the select and ultimate method.

Mr. DE ARMOND. In making up a code would you include a prohibition against making contributions to political parties?

Mr. McINTOSH. Yes.

Mr. DE ARMOND. Would you require publicity on that?

Mr. McINTOSH. Yes.

Mr. DE ARMOND. Would not that be a matter of detail? If you prohibited it, would you not be legislating in regard to matters of detail?

Mr. McINTOSH. Yes; to that extent; yes. I would not dismiss all sorts of detail, of course. I would not make contributions to political parties; and yet I can conceive conditions where I would, if it were not against the law. Technically, if it is right for a railroad or a bank or a trust company or a savings bank or a merchant to contribute the money of its stockholders to a campaign to promote their business, I can not see why it would not be true also of life insurance.

Mr. DE ARMOND. That may be true, but perhaps there is a truth behind or under it, whether it is right for any corporation to do that.

Mr. STERLING. I do not think it is the same thing at all—a railroad contributing campaign funds and a life insurance company doing it.

Mr. McINTOSH. Both are contributing other people's money.

Mr. DE ARMOND. That is usually the most popular kind of contributions—contributing other people's money. [Laughter.]

Mr. McINTOSH. I would have the companies file statements of all moneys expended in promoting or opposing legislation.

Mr. DE ARMOND. Why ought there to be any money legitimately expended in opposing or promoting legislation?

Mr. McINTOSH. How can you do that without spending money? For example, I came down here at some expense. I can not pay it out of my own pocket. The company ought not to ask me to do that. Suppose I am not regularly in the company's employ; it would be more convenient, as it is often, to employ some local lawyer. That is as legitimate an expenditure as any a company could have.

Mr. DE ARMOND. That is, promoting or opposing some legislation?

Mr. McINTOSH. Yes.

Mr. DE ARMOND. According to your own theory, that would legitimize expenses for lobbying?

Mr. McINTOSH. It depends upon what you mean by lobbying.

Mr. DE ARMOND. I mean what is usually meant by lobbying.

Mr. McINTOSH. I do not know what is usually meant by it.

Mr. DE ARMOND. Then, I mean what is meant by it in New York. [Laughter.]

Mr. McINTOSH. I will say what I mean by "lobbying," and then I will discuss it. I take legitimate lobbying to mean meeting before committees to discuss legislation with them, as we are now doing, or a meeting with individual members of a legislature whom you feel you have a right to meet, and who are willing to meet with you, and giving them such light as may be of assistance to them in determining whether or not they are in favor of or opposed to the legislation. That is my idea of lobbying. It is entirely legitimate, and is the duty of any concern affected by the legislation.

Mr. DE ARMOND. However, when you went back to New York and reported to your office, you would not say you had been down here lobbying before this committee?

Mr. McINTOSH. No; I would not say that.

Mr. DE ARMOND. That would not be your definition of it, and it would not be a correct one?

Mr. McINTOSH. No; I would not say—

Mr. DE ARMOND. You would not call that "lobbying" when you went back to New York?

Mr. McINTOSH. No; I might not use that word.

Mr. DE ARMOND. When you put in your charge for this you will not put in, "For lobbying before the committee in Washington?"

Mr. McINTOSH. No, sir; I will say, "For expenses in Washington," etc.

Mr. PARKER. Have you any more points as to the model bill?

Mr. McINTOSH. No, sir; I think I have given my ideas of a model bill. They are publicity and prohibiting, perhaps, contributions to political parties; and as a part of the publicity, a statement of what had been spent in legislation or for legal expenses; perhaps generally I would have that itemized.

Mr. PARKER. You have not mentioned, however, the power of the insurance commissioner of the District to prevent companies doing business here that appeared to him to be unsound. Did you cover that?

Mr. McINTOSH. Oh, yes. The insurance commissioner should issue each year to the insurance companies that met with the requirements of his office a license for the year, which would have to be renewed when they complied with the law at the beginning of the next year; and I must say that I do not think that the insurance commissioners should be given a free hand to deal partially, if they chose to do so, with the companies.

Mr. PARKER. Do you think that the rule of publicity which you invoke should go so far as to show the exact amount of money spent on new business and the amount of premiums received?

Mr. McINTOSH. Yes, sir; I think the provision for publicity that is here is a very good one.

Mr. PARKER. The one in the Ames bill?

Mr. McINTOSH. Yes, sir.

Mr. PARKER. Do you think it is expressive? You spoke of it as being quite in detail.

Mr. McINTOSH. It is in detail; but how can you give publicity without detail? I do not see how you can help it.

Mr. PARKER. You think the details here are useful and necessary?

Mr. McINTOSH. As long as they are in the line of publicity, I think they can be managed. My people did not say to me that they could not conform to that section.

Mr. PARKER. I see that under section 9, page 11, under the fourteenth statement of returns of life insurance companies, it covers the matter I referred to—that it shall contain an accurate, concise, and complete statement—

A statement showing the rates of dividends declared upon deferred dividend policies completing their dividend periods for all plans of insurance and the precise methods by which said dividends have been calculated.

Mr. McINTOSH. That is all right. That is all to satisfy the policy holder.

Mr. PARKER. The next one is—

A statement showing any and all amounts set apart or provisionally ascertained or calculated or held awaiting apportionment upon policies with deferred

periods longer than one year for all plans of insurance and all durations, and for ages of entry as aforesaid, together with the precise statements of the methods by which the same have been provisionally or otherwise determined.

That covers the secrecy that applied before to the tontine, and it would have remedied many other abuses that are alleged against it?

Mr. McINTOSH. No; I do not agree at all with the charge that the abuses complained of grew out of the deferred dividend policy. I do not agree with that at all.

I want to add just a word as to the way in which I would get at the preparation of a code.

Mr. BIRDSALL. Just a moment, before you go to that branch of the subject. I have examined the act of the New York legislature here, and I find that you are correct as to the limitation that is placed upon the new business that may be done by your companies, and it gives rise to a suggestion with reference to the code here, whether a provision of that kind would be wise or unwise. Ascribing to the motives of the New York legislature only good intentions. I take it that this prohibition is made upon grounds of public policy, to prevent the accumulation of vast funds under the control of an insurance company or the individuals composing it; that that is the prime object for limiting the amount of business that may be done. I take it that you do not regard the accumulation of vast funds in the hands of an insurance company, or of the individuals that control it, as being at all detrimental either to the public health, morals, or general welfare?

Mr. McINTOSH. Or safety.

Mr. BIRDSALL. I can find no other reason for this provision in the New York statute except that.

Mr. DE ARMOND. Probably to cut off what is regarded as unwholesome and injurious competition—a wild scramble for business.

Mr. McINTOSH. That is something that suggested that.

Now, as to the question of accumulation of funds, you must remember that those funds are accumulated not in the form of money, for the money must be kept invested. The premiums of the company are reckoned on an interest-earning basis. If they do not earn interest on the premiums collected the companies can not meet their obligations ultimately, so that the accumulation of funds is not accumulation of money, but the accumulation of interest-bearing securities, mortgages, bonds, and so forth. Now, what difference does it make to the public whether or not \$1,000,000 or \$500,000,000 of bonds and mortgages are in our safe?

Mr. BIRDSALL. Let me suggest this—it might make a difference: Suppose your company, for instance, should hold \$50,000,000 in railroad stock, and should conclude to throw it on the market for the purpose of affecting the market. It would have the power, would it not?

Mr. McINTOSH. In the first place, we do not invest anything in stocks. I take your assumption there is that we do.

Mr. BIRDSALL. Yes; assume it.

Mr. McINTOSH. You assume in that that the officers of the company were not conserving its best interests. When you do that it does not make any difference what your laws are and what the company is, if you have bad men in charge of it they can wreck it and do harm with

it, whether it is a large or a small company. So that I do not think there is any possible menace in the amount of bonds or mortgages or other standard securities that a company may hold.

Mr. BIRDSALL. My inquiry led to the thought whether that was in the minds of the committee of the legislature in framing this provision.

Mr. McINTOSH. I would want to be excused from trying to interpret the minds of the framers of that law. [Laughter.]

Mr. DE ARMOND. Supposing that one of the things that influenced them to that was to check an injurious competition for business which led to the giving of rebates and the payment of inordinate commissions to agents to secure new business. Suppose that was the object.

Mr. McINTOSH. All right; they have already in that law limited the amount of money you could spend. Now, if you can not spend more than a certain amount of money, why should you limit the amount of business you can do with the money you had a right to spend? Why should the law limit their prosperity?

Mr. STERLING. The amount of money they can spend depends upon the amount of business they can do, does it not?

Mr. McINTOSH. No; not in this way under this bill in the way of rebating, if an agent was going to get a living.

Now, I was going to say a word as to how I would prepare such a code. As you gentlemen know, this is a very complicated and technical subject. I do not pretend to understand it myself. I have been diligent, and I have tried to. I have taken actuarial books home with me and studied them at night, and have done what I considered my duty since I have been responsible for the legal department of my company. But a man must first be educated for this business, and then must grow up with it to understand its details. When I want to understand the details of the business I go to those who have done this and find out what I want to know.

Now, I do not believe that it is practicable for a law to be passed, such as I think would be a model code, namely, one providing appropriately for the organization of corporations and for a practical and comprehensive system of publicity, without obtaining the advice of technically educated men as well as men of practical experience in the business in framing the measure. Now, I have a very high respect for the committee who, associated with Congressman Ames, have prepared the present bill. I know many of them personally, and I honor them; but I do know that they—because I know my own experience—can not be fully equipped for the technical work of framing such a law as is required; they can not be equipped with the technical knowledge necessary as well as the practical knowledge. You may have technical knowledge, but you must associate it with practical knowledge, otherwise it simply becomes like this New York legislation, a hindrance and a detriment, rather than a benefit.

Now, I believe, for instance, that if the American Actuarial Society, which is a society of very honorable distinction, to which no one is admitted unless he is thoroughly fitted both by technical training and, I think, perhaps, some experience. The requirements for admission to it are much more exacting than are the requirements for admission to the bar in any State that I know of. They require now, I am told, four years' study, during which examina-

tions are taken for admission to the American Actuarial Society. Of course the membership of such a society is not large. How large is it, Mr. Rhodes?

Mr. RHODES. Sixty.

Mr. MCINTOSH. I did not think it was so large as that.

Now, if the American Actuarial Society were invited to elect by ballot three of its members, to consult and advise with such a committee as might be agreeable to you and Congressman Ames and to the committee of insurance commissioners, I believe that the collaboration of such a body would result in as nearly a model law as could be had. But I do not believe that any model law that is at once practicable and scientific can be framed without the cooperation and advice of technically educated and practically experienced men. I am led to make this suggestion because Congressman Alexander asked the question.

Mr. BIRDSALL. I have an impression that they have already given some service to the formation of this bill.

Mr. AMES. Yes; even from its inception. We got the best advice from the Massachusetts insurance department—their actuary there.

Mr. MCINTOSH. The actuary of an insurance department would not be a practical man. He would be an educated man, but he would not be likely to be a practical man.

A BYSTANDER. The actuary is a she. [Laughter.]

Mr. MCINTOSH. If it is a lady, then she certainly would not be a practical man. [Laughter.]

That is all I have to say. I thank you, gentlemen.

Mr. AMES. I would like to ask you a question. I would like to bring out a point, Mr. Chairman, that I do not think has been sufficiently emphasized, and the witness, being the legal representative of a very large company, could probably explain better than anybody else to the committee the unnecessary burdens that a number of States put upon insurance companies through their insurance departments for the purpose of raising revenue. Now, in this bill we provide for no taxation of insurance companies other than the small fees that may be necessary to pay for examination and one thing and another. Do you [addressing Mr. McIntosh] think that would be a good feature, if it can be incorporated into the laws of the several States?

Mr. MCINTOSH. I do think so. One of the deplorable facts we have to meet is unjust and discriminating taxation. I hope the time will come when insurance companies will be willing to withdraw from States that overtax them.

Mr. STERLING. How much is that?

Mr. MCINTOSH. Let me just show you. Here is the State of Ohio. What do you suppose the State of Ohio taxes life insurance? Three per cent. Out of every \$100 of premiums that are collected in the State of Ohio the State takes \$3.

Mr. DE ARMOND. How much does the company take out of a man who pays it more than he would need to if the companies were economically managed? How much does it take from him?

Mr. MCINTOSH. That is all determined scientifically by the actuaries and is paid back to him according to his contract with it.

Mr. DE ARMOND. I know that is determined scientifically by the actuaries, but that makes it all the easier to say what per cent it is.

Mr. McINTOSH. They have a way of figuring that, and the premiums charged by the different companies are substantially the same for all kinds of policies. I believe I am right. Mr. Gore, am I not?

H. W. GORE. Yes.

Mr. McINTOSH. So that whatever it is, they have fixed their premium upon what is believed to be a scientific and safe basis. Of course, when a State takes out of that for taxes, to that measure it disturbs the calculations upon which the premium was figured, although, of course, in all premiums there is an element figured with the premium for the purpose of meeting all expenses.

Mr. DE ARMOND. You could not cite any instance just now where any company has really suffered seriously from this taxation, could you?

Mr. McINTOSH. Well, they have not bankrupted any of the companies.

Mr. DE ARMOND. No.

Mr. McINTOSH. But if any other business enterprise were taxed at the rate of 3 per cent on its gross receipts I have not any doubt but the tax of every such taxpayer would be multiplied by from 5 to 25. I got figures on that one time. I was a lawyer for some insurance companies, lobbying in the legislature of Nebraska against what I thought to be an iniquitous tax bill, and I went around to some merchants whom I knew well enough to do so and asked them for confidential statements, without using their names, for the purpose of figuring the difference between what 2 per cent on their gross collections would have been and the tax they were actually charged, and by their own figures their taxes would have been multiplied by from 3 to 33, so that the States discriminate against insurance companies in their taxes against them. That would be the result of a gross 2 per cent premium tax, such as you have in Missouri, but a 3 per cent tax 33 $\frac{1}{3}$ per cent further.

Mr. STERLING. Do you charge a higher premium in those States?

Mr. McINTOSH. No, sir; but we are considering, so far as we are concerned, the question of keeping the policies of each State separately, so as to deduct from the policies of those States the taxes paid on the premiums there. That is a fair way in which it ought to be done. So far as my influence goes, that will be done, but I have not the say in it.

Mr. FLOWER. That would make Ohio suffer for the extra taxation, then?

Mr. McINTOSH. Yes. Under the present plan Ohio takes that excessive tax. Some other States, as they should have, have a merely nominal tax on the premium. Ohio forages on the funds ultimately payable to the insured of other States.

Mr. DE ARMOND. I understand the agent gets 40 or 50 or 75 per cent, or even more, of that first premium.

Mr. McINTOSH. That is the first premium. The average compensation of agents in our company, assuming that they give no rebates and collect all their premiums, is about \$800 a year. That is under our old system, and at the beginning of this year we reduced their commissions 10 per cent. Under this new law I do not know what the commissions will be.

Mr. DE ARMOND. Forty or 60 per cent does, I understand, go to the agent.

Mr. McINTOSH. It was 50 or 60 per cent of the first premium; but we do not give renewals.

It was said that the Northwestern came under this select and ultimate theory. The fact is, the Northwestern is in partnership with its agents, the agents having an interest in renewal premiums. We do not give renewals except on the first renewal premium in our present practice.

Mr. BIRDSALL. That would be \$66.66 a month if you went out and hired them to get this business. You have either to give it to them out of the premium or employ them direct for their service?

Mr. McINTOSH. Of course, you could pay a salary; but they would soldier on you.

Mr. ALEXANDER. You are speaking of progressive insurance. The question I ask may betray a tremendous amount of ignorance, but I will ask it. Is insurance any cheaper to the policy holder now than it was thirty years ago? In other words, can a young man now take out a policy for \$5,000 in your company at the age of 25 years—a life policy—cheaper to-day than thirty years ago?

Mr. McINTOSH. No. I do not know what the premiums were thirty years ago, but the premiums on life insurance are bound to increase rather than decrease, because the premiums are fixed upon an assumed rate of interest which it is expected the money will earn during the reckoned life of the contracts. Now, as interest rates fall, necessarily premium rates must increase, because the result of the premium and investment must equal a certain sum at a certain time, theoretically, so that there is no ground for expecting that premium rates might have diminished, and there is no reason for looking forward to a decrease of premium rates, because the tendency of interest rates is down, rather than up. The insured, however, gets more for his money now than he did thirty years ago, because of the improved and liberalized contract he receives, and in that sense insurance is cheaper now than it was then.

Mr. AMES. Another question. The committee have no knowledge, I imagine, of the way certain examiners of certain insurance departments have held up companies for their expenses. Can you give the committee any of your experiences in that respect?

Mr. McINTOSH. I am very glad to be able to say that I have had no experience in that respect. We were examined by the commissioners of five States last fall. They were in our office some five months, with a corps of examiners numbering from 15 to 30—I do not know how many—and we welcomed that examination, because the conditions that you all know about really made it very desirable. The investigation was a very thorough one. Mr. O'Brien was one of the commissioners. The commissioners were exacting. They went into every detail of our business. It cost a good deal of money, but I think it was worth all it cost. Of course I have heard of stories of companies being held up, but I am glad to say that I have had no experience, personally; and, personally, I do not expect to have any experience of that kind.

Mr. AMES. Another question, in connection with this feature of a proper code in the District, and the examination of a department whose examination should be accepted by other States: The Armstrong law requires that an examination shall be made every three

years of every insurance company doing business in the United States?

Mr. McINTOSH. Yes.

Mr. AMES. If your company had to expect an examination once in three years by every State in which you did business, it would be an impossibility physically and financially to comply with it?

Mr. McINTOSH. It would be physically impossible and financially destructive. The examination I refer to cost us about \$35,000, and it was the cheapest examination, I am advised, that has ever been made. The commissioners were businesslike and as careful of the company's money as if they had been spending their own money.

Mr. AMES. And the length of time of the examination of one company would be three or four months?

Mr. McINTOSH. Yes, and more; and it is a great inconvenience in an office—an awful nuisance.

Mr. AMES. Then it would be a distinct advantage to policy holders if one bureau's examination might be accepted by other States?

Mr. McINTOSH. A very great advantage.

Mr. ALEXANDER. Another question, entirely irrelevant and entirely through my own curiosity: Did your company suffer the loss of any policy holders growing out of this investigation in the last eight months?

Mr. McINTOSH. I can answer that. Of course, every company is losing policy holders all the time; every company has policy holders who lapse their policies; and in the last eight months we have had lapses of policies. But the percentage of lapses has been so little above the normal that it has been perfectly surprising to us, in view of what the newspapers have had to say. The policy holders as a whole seem to be well satisfied, and when it comes down to the question of those deferred dividends, we write new insurance on persons who have been settled with on the deferred dividends many times in excess of those who make one word of complaint about being disappointed with the results of their policies.

Mr. FLOWER. Does your company intend to take into court that clause of the Armstrong law that limits the amount of business that you can write in any one year?

Mr. McINTOSH. No, sir; there is not any use.

Mr. CRAIG. Mr. Chairman, can I make one additional statement?

Mr. PARKER. Yes.

Mr. CRAIG. Just before Mr. Dawson left the room I asked him if he had ever given consideration to this thought: If the Armstrong committee had recommended and the New York legislature had adopted nothing but section 97 of this code, which relates to the limitation of expenses, what the effect would have been? He said, "No;" he had not; but without any hesitation he was willing to say that it would largely, very largely, have rectified all the evils that were found to exist.

(Thereupon, at 5.10 o'clock p. m., the committee adjourned until 10 o'clock a. m. to-morrow, Wednesday, May 16, 1906.)

COMMITTEE ON THE JUDICIARY,
Wednesday, May 16, 1906.

The committee this day met, Hon. R. W. Parker in the chair.

The ACTING CHAIRMAN. I would like to ask Mr. Drake a few questions.

ADDITIONAL STATEMENT OF MR. THOMAS E. DRAKE, SUPERINTENDENT OF INSURANCE, WASHINGTON, D. C.

The ACTING CHAIRMAN. I notice on page 26 of the bill, lines 13, etc., that it provides that no corporation shall undertake more kinds of insurance than are specified in a single clause, except that a corporation may be formed for the purpose of life insurance and accident insurance to the person or for the fidelity of clerks and insurance on the lives of clerks or persons holding responsible positions and insurance against bodily injury or death. Was it intentional that fire and marine insurance, the second and third clauses, could not be united in one company?

Mr. DRAKE. I do not know. That feature was copied from the Massachusetts statute. I had no hand in the original draft of this bill.

The ACTING CHAIRMAN. Was it intentional that the casualties from explosions and the breakage of plate glass should not be done by a fire-insurance company?

Mr. DRAKE. I do not know, sir.

The ACTING CHAIRMAN. Can you give any reason why, under the eighth clause, page 23, insurance against loss or damage to property arising from accidents to elevators and vehicles, except rolling stock of railways, why that exception should be made?

Mr. DRAKE. No, sir; I do not know why that exception should be made.

The ACTING CHAIRMAN. As to the ninth clause, credit insurance, are any such companies now in existence?

Mr. DRAKE. Yes, sir; there is one company.

The ACTING CHAIRMAN. A Washington company?

Mr. DRAKE. No, sir; a New York company.

The ACTING CHAIRMAN. You mean they are doing business here?

Mr. DRAKE. Yes, sir. There is no local company.

The ACTING CHAIRMAN. I suppose you have fire and marine companies here?

Mr. DRAKE. Yes, sir.

The ACTING CHAIRMAN. Organized here?

Mr. DRAKE. None that does the combined business of marine and fire insurance.

The ACTING CHAIRMAN. I understand you wish to make some further remarks?

Mr. DRAKE. Yes, sir. I want to call the attention of the committee to the defective incorporation law of the District of Columbia which makes it so difficult to determine what class of companies should be licensed. Prior to May 5, 1870, there was no law in the District of Columbia that authorized the incorporation of any kind of insurance companies, all companies prior to that time having received their franchises direct from Congress by special acts. On May 4, 1870, there was enacted what is called the "manufacturers' law," I am told, copied almost verbatim from the New York law

existing in that State at that time, with the word "insurance" injected both in the caption and also in the first section of the chapter.

Immediately after the enactment of that law there were several fire insurance companies that incorporated under it. That law required all companies to have \$100,000 capital and all manufacturing companies of every kind up to the time this code was enacted were required to have \$100,000 capital. That kept the manufacturing interests out of the District of Columbia. There was no provision for assessment life insurance of any kind up to January 26, 1887. Companies of that character that wanted to do business in the District of Columbia received them direct from Congress. A large number of companies of all kinds came into the District and did business here, as I understand it, that were not in any way regulated. They did not have to do anything, they did not have to comply with any law, except, perhaps, to pay a license fee, but as soon as this law was enacted—

The ACTING CHAIRMAN (interrupting). When was that?

Mr. DRAKE. January 26, 1887. That law fixed a standard for the liabilities of fire insurance companies and also life insurance companies, and provided for the regulation only—not the incorporation—of assessment insurance.

The ACTING CHAIRMAN. Have you a printed copy of that act?

Mr. DRAKE. No, sir; it is in the statutes.

The ACTING CHAIRMAN. Is it in the code?

Mr. DRAKE. Not in the present code; it is in the general insurance law of 1887.

Mr. DAVIS. The provision in the code was drawn from that act.

Mr. DRAKE. It was modified. When the insurance code of the District of Columbia was enacted and went into force, January 1, 1902, that law was amended, taking out the provision of \$100,000 for all kinds of insurance companies except joint stock fire insurance companies. In opening the department I examined the statutes as carefully as I could, analyzing them to fit the situation as nearly as I could, and I found a peculiar situation so far as what might be termed, as distinguished from other kinds of assessment life insurance, "industrial" companies. I found seven companies here of that kind that were organized under what we call "the regulation act," with capital stock on the assessment plan, something that had never come under my observation before—that is, a mutual company having capital stock. I conferred with the corporation counsel and he told me that inasmuch as they had been recognized by the assessor and licensed, to license them, which I did, although I ruled at that time that no companies of that kind could incorporate here, because there was no legal provision for it.

One company came over from Virginia, took out a charter under the present District of Columbia Code, and attempted to qualify. I refused it a license, and it accepted that as the ultimatum and did not attempt to do business. Later the matter was presented to the corporation counsel, and an opinion was rendered that they could incorporate. Then the doors were opened and they began to organize. We have seven of those companies, which have organized since the department was created, making fourteen in all. There are three of those companies that claim exemption in the way of not being compelled under the present code to file their annual state-

ments, pay taxes, or receive licenses. The matter was brought before the supreme court of the District, and the department was sustained. The case was then appealed and it is still pending.

What I am trying to impress you with is the importance of having our code either reformed or a new one enacted. There is one company whose charter I have here, that has taken advantage of the situation as it appeared and has organized with a capital of \$1—organized to do an old-line legal-reserve life insurance business on a paid-up capital of \$1. I forbade the company's doing business, and I have not heard of its doing any business; but that is the situation, and you can see how very difficult it is to administer over this department with the laws we have.

I told you at the outset that the District of Columbia insurance laws are the worst in existence, and I repeat that statement. They are peculiar to the District of Columbia. The way insurance laws are usually adopted, where merit is considered, is after they have been adopted and tested by some States, then they are readopted by other States, and where they have no insurance department the insurance interests come either under the auditor of State or the treasurer of the State, and after the interests become large and are shown to be of such importance as to require an insurance department, it is created, and with that creation the existing laws are simply transferred and the department permitted to go on without substantially any new requirements. We did not find that case here. When this department was created all of the former laws were repealed and this subchapter 5 was "sandwiched," so to speak, into the code. The insurance department was created thus, and it seems to have been the intention of the lawmakers that, at the start-off, it should be fully equipped and prepared to do as much as departments that had been in existence fifty or sixty years. That is one of the difficulties we have had to meet, and that is the principal thing that I want to indelibly impress upon you; that is, the matter of either amending the code we have now or creating an entirely new one.

The ACTING CHAIRMAN. Some law for the District is a crying necessity?

Mr. DRAKE. Yes, sir; and the code should be specific. There should be distinct sections for each and every kind of the insurance business, the same as in the States. Now it is all conglomeration. If you want to find something about legal reserve insurance you can probably find it in the beneficiary section. That is the code we are now trying to administer. It is absolutely necessary that we should have some law, either the old law revised or this bill enacted into law, so that we can administer it clearly and distinctly and give justice and equity to all concerned.

Mr. Chairman, the bill before you, interpolated as it is, is the deliberate, best thought of many men throughout the States and Territories, fully competent to judge of the needs of the situation and what will be best for those needs.

It is impossible to frame an insurance code that will meet with the views of all, whether insurance men or not. Indeed, it would be difficult to frame one that would satisfy the individual views of all the members of this committee; especially after this prolonged hearing. Outside of Congress few measures have ever received the careful consideration of so many men competent to judge as has this bill.

It is believed that the bill with the new amendments proposed to this committee fully protects the interests of policy holders—which is indeed the main object of every insurance law—and is also fair and just to the insurance companies. If it is so, that is all we need and all that is required of any insurance law.

Time may disclose defects and deficiencies in this bill; then knowing what they are, we shall be in a better position to correct them.

There is another reason for the enactment of this bill as it now stands, and during the present session of Congress, too. There are few greater difficulties or hindrances in dealing with insurance by the departments than those arising from diverse and often conflicting local legislation, such as we have here, under which each company doing business must adjust its methods; not only with reference to the laws of its own State, but to those of every State and Territory in which it does business.

This bill, with its modifications and additional amendments, being the product of so many State officials, experienced and competent insurance officers, actuaries, and agents, and having the hearty approval also of so many practical insurance men, will, it is believed, if given the high authority of its enactment by Congress, be promptly enacted, with such slight changes as to make it applicable by nearly all the States, and soon by all; thus securing that uniformity of insurance legislation which is so much desired everywhere.

It is thought that any further amendments of the bill, however wise, will tend to defeat this. It is to be hoped, therefore, that this measure—thoroughly reformed and revised as it now is—may be recommended by your honorable committee to Congress, and let time and experience determine what further amendments may be necessary.

The ACTING CHAIRMAN. Mr. Henry E. Davis, of Washington, D. C., is here as counsel for some assessment companies, and we will now hear him.

STATEMENT OF HON. HENRY E. DAVIS, COUNSEL, WASHINGTON, D. C.

Mr. DAVIS. Gentlemen, I am here in behalf of certain insurance companies or associations operating in the District of Columbia known as assessment life insurance companies or associations; sick, accident, and death benefit assessment companies or associations, and sick and accident assessment companies or associations, all of which are provided for under existing law.

A bill has been introduced (H. R. 18894) proposing to amend the code of the law for the District of Columbia by striking out section 653, which provides for those companies, and making a certain substitution.

The ACTING CHAIRMAN. Please read the present section?

Mr. DAVIS. Yes, sir. Section 653 reads as follows:

Assessment companies.—Insurance companies or associates transacting the business of life insurance on the assessment plan, organized under the laws of the District of Columbia or of any State of the United States, and doing business in said District, shall not be required to comply with the provisions of the next preceding section in regard to its assets; but such assessment companies or associations shall be required, as a condition of license to do business

in said District, to file annually in the month of January with said superintendent a sworn statement setting forth that they are paying, and for the twelve months next preceding have paid, the maximum amount named in their policies or certificates of membership when and as the same become due and payable, and that one assessment upon their members is sufficient to pay the maximum amount for such certificate or policy issued, and such other information as he may require.

Such assessment companies or associations shall also furnish said superintendent evidence that they hold an emergency or surplus fund as a guaranty for the payment of future death claims when the same is required by the charter or constitution of the company or association; and any such company or association licensed to do an insurance business refusing or neglecting to furnish such certificate shall have its license to do business in the District of Columbia revoked; but the provisions of this section shall apply only to associations transacting life insurance upon the assessment plan.

The ACTING CHAIRMAN. When was that law first passed?

Mr. DAVIS. In 1887, and it was afterwards enacted into the code.

The ACTING CHAIRMAN. I would like to ask you whether you consider that a safe provision as it stands?

Mr. DAVIS. No, sir; I want it changed.

The ACTING CHAIRMAN. It is not safe for the policy holder or anybody else?

Mr. DAVIS. No, sir. The bill H. R. 18894, proposed, is to amend that section. The bill was introduced by Mr. Samuel W. Smith. It has been supplanted by H. R. 19154, also introduced by Mr. Smith, and this is the bill which the companies for whom I am speaking desire to have enacted as a substitute for section 653 of the code. There are numerous objections to the bill H. R. 18894, but in view of the turn which this hearing has taken, it is hardly necessary for me to dwell upon them.

The ACTING CHAIRMAN. I think it would be well for you to briefly refer to them because we have not heard anything about these bills.

Mr. DAVIS. Very well. The principal objection to the bill H. R. 18894 is that it sets forth a hard and fast form of policy to be issued, two forms, in fact, one of which is scarcely intelligible; and neither of which, we think, should be adopted, for the reason that if a form of policy be set by law it can not be changed, of course, except by law, and in the application of the insurance laws to companies required to issue such policies it might, and is almost certain to be, that the policy would be found inelastic and inadapttable to conditions; and, moreover, in the bill H. R. 19154 the provision is inserted that there shall always be a policy in form to be approved by the superintendent of insurance, and the Commissioners of the District of Columbia, on appeal from him, to be changed from time to time only in the manner prescribed—that is, after giving notice and hearing—so that the provision in the bill H. R. 19154 is entirely elastic and is amply protective of the policy holders' interests. It leaves with the authorities the prescription of the form of policy, and thereby avoids any possible danger of injury to the insured. That is the principal thing in the earlier bill that is corrected by the second bill.

Now, if I may discuss the bill H. R. 19154, it provides that all such companies as I am speaking of—that is, assessment life insurance companies or associations, sick and death benefit assessment companies or associations, and sick and accident assessment companies or associations—shall be incorporated before engaging in business in

the District of Columbia. That obviates one of Mr. Drake's objections, which is in the letter of the law rather than in its spirit. It is provided that they may be incorporated under subchapter 4 of chapter 18 of the code of law for the District:

Provided that every such company shall have cash assets of not less than one thousand dollars, besides the bonds to be deposited in the registry of the supreme court of the District of Columbia, as hereinafter provided; and before the articles of incorporation of any such company or association are admitted to record by the recorder of deeds, the superintendent of insurance and the clerk of the supreme court of said District shall certify to said recorder that the said company has complied with the above conditions relative to its cash assets and the deposit of bonds as hereinafter provided.

Under the law as it stands to-day in the District of Columbia the recorder of deeds is obliged to admit to record any certificate that in form complies with the requirements of the law. One question that has caused considerable friction between the department of insurance and these companies in the District of Columbia is this—whether after the incorporators have complied with the law and met all of its requirements in respect of incorporation, and have obtained the recorder's certificate of their incorporation, the superintendent of insurance has any right to demand of them that they obtain a license? In other words, it has been contended by these companies, and is still contended by them, that when incorporated under the laws of the District of Columbia that is all they have to do to entitle them to do business in the District, and that provision of the insurance law as to license has reference to outside companies coming into the District to do business.

The law says that before the articles of incorporation of any such company or association are admitted to record by the recorder of deeds, the superintendent of insurance and the clerk of the supreme court of the District shall certify to the recorder that the requirements of this act, in respect to capital stock and the deposit of bonds in the registry of the supreme court of the District of Columbia, have been complied with. That is in the direction of protection to the insured, and is a salutary provision, which these companies are perfectly willing to have enacted into law.

Mr. BIRDSALL. That is, the act of certification takes the place of the license?

Mr. DAVIS. It ought to, but we go further and submit to being licensed in this bill. The bill is a long step in the direction of removing any possible friction between the companies and the Department. The bill next provides that any insurance company—I use the term "company" as generic—hereafter transacting the business of life insurance on the assessment plan, whether incorporated here or elsewhere, shall file with the superintendent a detailed annual statement, sworn to by its president or vice-president and its secretary or assistant secretary, showing its true financial condition as of the 31st day of December next preceding.

There is in the law as it stands to-day a provision to that effect, which, in my opinion, does not apply to these companies. That also has been a cause of friction between the companies and the Department. We are willing to be put under that supervision on condition of the substitution of it for the very ambiguous provision in section 653 of the code:

Also a statement, under oath, showing that it pays the maximum amount named in its certificates or policies as the same becomes due and payable, and for the last twelve months has uniformly done so.

The code as it stands contains a provision that I confess I do not understand and never did. It says that the company must file annually with the "superintendent a sworn statement setting forth that they are paying, and for the twelve months next preceding have paid, the maximum amount named in their policies or certificates of membership when and as the same become due and payable;" and here is what I do not understand, "and that one assessment upon their members is sufficient to pay the maximum amount for such certificate or policy issued." I do not think anybody can understand that.

MR. DE ARMOND. It should be "each."

MR. DAVIS. I suppose so. It is impossible to have one assessment which will meet every certificate that is outstanding. The language is incomprehensible, and why should it be so? This bill provides that the company shall show that every certificate that has fallen in during the year has been met at its maximum, and the deposit of bonds in the registry of the supreme court, with the thousand dollars to its credit, should be sufficient protection.

There is also a provision that the companies shall furnish any other information not inconsistent with law that the superintendent may require. That is a very liberal provision and one that the companies, of course, are looking to the superintendent to carry out reasonably. Then, by failure of any company to make any of the aforesaid statements or reports within ten days after notice from the superintendent of insurance, its license shall be revoked and certain of its officers shall be fined or imprisoned, as the case may be.

Provided, That every insurance company whatsoever, anything contained in section six hundred and seventeen of the Code of the Law for said District to the contrary notwithstanding, shall make the reports required of insurance companies by subchapters four and five of chapter eighteen of said code and as in this section provided.

That is to say, in addition to the statements called for by this bill, these companies shall be put upon the footing of other companies in respect to making reports which the State does not now require of them. It is a long step in the direction of increasing the security of the insured with these companies, and also they are required to furnish a statement of business required by section 650, which under the existing law our companies are not required to do. Then the provision is that:

Every such assessment company or association doing a life insurance business only that issues certificates or policies to individuals for not more than one thousand dollars shall deposit in the registry of the supreme court of the District of Columbia, on or before the thirty-first day of December, nineteen hundred and six, to guarantee the payment of benefits as provided for in its certificates or policies, United States, railroad, or municipal bonds the market value of which shall at all times be as much as fifty thousand dollars; and every assessment company or association doing a life insurance business only that issues certificates or policies for more than one thousand dollars shall deposit in the registry of said court, on or before the thirty-first day of December, nineteen hundred and six, to guarantee the payment of benefits as provided for in its certificates or policies, United States, railroad, or municipal bonds the market value of which shall at all times be as much as one hundred thousand dollars.

Neither of these things is required under existing law, and Mr. Drake's objection that somebody has incorporated a company with a capital stock of \$1 may be dismissed as not affording any apprehension.

Then the bill proceeds to provide that any company or association that issues certificates or policies on the assessment plan, providing for the payment of benefits on account of sickness or accident, in addition to the amount to be paid on the death of a member—and it designates such companies and defines them—and then provides that all such companies shall deposit in the registry of the supreme court of the District of Columbia on or before a day certain to guarantee the payment of benefits as provided for in its certificates or policies, in lieu of the bonds hereinbefore required, United States, railroad, or municipal bonds, the value of which at all times shall be as much as \$10,000. The companies are not required to do that under existing law. Then the companies are limited by this act as sick, accident, and death benefit companies to the issuance of a policy for not more than \$500 on the life of any one person.

Then comes the provision to which I alluded at the outset, and it seems to me to be sufficiently comprehensive and sufficiently protective of the interests of the insured:

All companies or associations named herein doing business in the District of Columbia shall issue uniform policies or certificates, the form of which shall, before such issue, be approved by the superintendent of insurance, after a hearing to be fixed by him on notice to every assessment life insurance company or association mentioned herein, either on his motion or on application of the majority of the companies or associations interested.

That is to say, either on its own motion or on application of the majority of the companies or associations interested, he is to fix a form of policy. The form or certificate may be changed after similar notice. This is really a very important provision in the bill, and I am sure the committee upon considering it can see it is absolutely protective. In a word, it provides this, that upon the application of a majority of the companies interested or upon his own motion, the superintendent of insurance, after notice to those concerned, shall fix a form of policy which shall be the uniform form for all of these companies. He may at any time similarly change that form and thereby you have an elastic provision of law to meet experience, whereas if you adopt a hard and fast form of policy it can not be changed except by legislation.

Mr. DE ARMOND. Undoubtedly you had experience in fixing that form?

Mr. DAVIS. Yes, sir; and it shows how valuable it has been.

Mr. DE ARMOND. I am talking about the question of putting a general form in the law, whether there is not a great deal of experience to go on now?

Mr. DAVIS. Yes, sir.

Mr. DE ARMOND. And whether the experience gained in the past few years would not be sufficient for the purpose?

Mr. DAVIS. No, sir; the insurance department of the District of Columbia is a very young institution. I do not think Mr. Drake would object to this provision of having the right to prescribe the

form of policy and to change it from time to time as experience would suggest.

Mr. DE ARMOND. That is not the proposition, whether Mr. Drake would object; it is whether Congress should enact it or not.

Mr. DAVIS. Yes, sir. It seems to me that all experience is that unless it is complete it is not safe to follow a hard and fast form.

Mr. DE ARMOND. Is it not a fact that there are a great many forms that have been in use a great many years?

Mr. DAVIS. No, sir.

Mr. DE ARMOND. And that with reference to insurance companies there are a great many forms prescribed by law?

Mr. DAVIS. There are policy forms that have been adopted by the various States.

Mr. DE ARMOND. I am talking about the policies which have been adopted by companies, whether there are not a great many forms by which to make out a form, if we see fit to put it in the statute?

Mr. DAVIS. Indubitably; but why is it not a perfectly safe thing to leave that to the administrative department of the Government, instead of having it imposed upon the law-making power under such exigencies as always arise when you come to ask for amendments and changes? This is a much more elastic way to deal with the question, and I would submit that it is a much safer way to deal with the question, because the control of it is given absolutely to the department of insurance, considering the Commissioners of the District of Columbia and the superintendent as constituting that department, and I can not conceive that there could possibly be any danger of injury to the insured by leaving it to the department of insurance, after hearing from time to time, to adapt the form of policy to circumstances and conditions as experience reveals them.

Mr. DRAKE. The suggestion as to the standard policy, as appears in this reform bill which Mr. Davis is explaining, came from Mr. Smith, the chairman of the committee to whom the bill was first referred.

Mr. DAVIS. He has abandoned it now.

Mr. DRAKE. He requested that all the policies of the assessment companies of different kinds doing business in the District of Columbia should be submitted to the corporation counsel and a standard form adopted, and this is the product of it.

Mr. DAVIS. Mr. Smith has abandoned that and has substituted the provision that I am now talking of in place of the rigid and inelastic form in the original bill.

Mr. LITTLEFIELD. Do you contemplate conferring power on the superintendent of insurance to change the substance of the contract between the company and the policy holder?

Mr. DAVIS. Not at all. What we propose to do is this: To provide for the establishment of a uniform policy, and that that form of policy shall be in the beginning fixed by the superintendent of insurance after notice to the companies, etc. All policies of that form that are issued of course form the contract between the companies and the policy holders.

Mr. LITTLEFIELD. Precisely.

Mr. DAVIS (continuing). And if there should be found in experience anything unsatisfactory in that form the bill gives the superintendent of insurance the right to prescribe another, but only in respect to future policies.

Mr. LITTLEFIELD. Can you under the authority to prescribe the form compel the company to enter into a different kind of contract and create different rates between the company and its policy holders?

Mr. DAVIS. Only for those that come in afterwards.

Mr. LITTLEFIELD. Your proposition here puts it within the power of the superintendent of insurance to change the scheme of the assessment insurance company, if he thinks it is wise to do so. It is not simply throwing out a whereas here and putting in one there. Your idea is to give the superintendent of insurance the power to fix the form of policy and to change the contract with the policy holders?

Mr. DAVIS. I would not put it just that way.

Mr. LITTLEFIELD. That is what it comes to?

Mr. DAVIS. No, sir. What is the significance of the scheme if it does not change the contract between the company and the policy holder? The superintendent of insurance, under the supervision of the Commissioners of the District of Columbia, who, with the District Commissioners, constitutes the insurance board of the District of Columbia, will be vested with the power to prescribe the uniform policy from time to time.

Mr. LITTLEFIELD. That is, the uniform contract?

Mr. DAVIS. Yes, sir; as to all who come under it.

Mr. LITTLEFIELD. You propose to authorize him to change the form of policy from time to time. Does your proposition here contemplate vesting in the superintendent of insurance the power to say that the developments have been such in connection with the subject of insurance that from now on the companies must have another kind of contract and give a different kind of contract to the policy holder?

Mr. DAVIS. I think you rather overstate it.

Mr. LITTLEFIELD. If you could change the contract in one feature, you could change it in all. Is that the purpose? Do you propose to give the superintendent of insurance the power to judge as to what policies thereafter shall be issued and to compel the companies to make new contracts with the policy holders?

Mr. DAVIS. On the assumption that the insurance department could under this provision make a form of policy that would change the obligations of the companies, under its charter, of course, your objection is fatal to the suggestion; but the law itself fixes the relation of the company to its insured and to guarantee the meeting of its obligations upon the terms on which the company is organized.

Mr. LITTLEFIELD. That is the general proposition?

Mr. DAVIS. Yes, sir.

Mr. LITTLEFIELD. Does this proposition you have here contemplate giving the superintendent of insurance the power to say that experience has shown, for instance, that the details of the policy existing now between any assessment company and its policy holders are not such as adequately protect the rights of the policy holder and that from now on another contract must be entered into between the company and the policy holder, and if they do not see fit to enter into that contract they can not do business?

Mr. DAVIS. Practically so; that is to say, without affecting existing business at the time.

Mr. LITTLEFIELD. Of course.

Mr. DAVIS. Understand always that the provision of the bill re-

quires that the Commissioners of the District of Columbia shall approve what the superintendent of insurance does in that regard.

The ACTING CHAIRMAN. The largest deposit that is provided in the bill is \$100,000?

Mr. DAVIS. Yes, sir.

The ACTING CHAIRMAN. If a company got to doing a business of a million dollars, could the superintendent of insurance insist that they should create a larger reserve?

Mr. DAVIS. No, sir. We will assume, of course, that it is impossible for the commissioners or the department of insurance to change the legal rights and legal liabilities of the company. This provision has merely reference to the form of policy necessary to carry on the business of the company in accordance with its charter rights and its duties.

The ACTING CHAIRMAN. Do you not think the amount carried as capital or as reserve ought to be in proportion to the amount of business done?

Mr. DAVIS. That would be a very difficult thing. These companies are all small companies comparatively, and the protection that is provided by this bill is infinitely greater than that which now exists in every particular.

The ACTING CHAIRMAN. There is no protection now?

Mr. DAVIS. No, sir; nothing except the solvency of the individuals who compose the company.

Mr. LITTLEFIELD. That is not a very substantial proposition.

Mr. DAVIS. No, sir.

Mr. LITTLEFIELD. You must be very familiar with the experience of assessment companies, and I would like to ask you the question whether, in order to adequately protect the people holding policies therein, it has been necessary to accumulate a certain sum for the carrying out of the contracts?

Mr. DAVIS. That is a question that requires to be split in two. There are companies and companies. Those companies prospering which have been conducted along conservative and respectable lines have not found it necessary, and companies that are conducted otherwise would not protect anybody in any event.

Mr. LITTLEFIELD. Then, your answer would be that when assessment insurance is properly conducted there is no occasion for the accumulation of any fund for the protection of the policy holders?

Mr. DAVIS. It has not been proved necessary, but we are here to say that the provisions of this bill go very far in the direction of providing about as complete protection as these companies should offer.

Mr. LITTLEFIELD. If there is no occasion for the accumulation of any fund, what is there to guarantee the performance of the company's contracts except the solvency of the stockholders?

Mr. DAVIS. There is nothing. You asked me what had been the experience. There is nothing under existing law. We propose to change it by requiring this deposit to be made in the registry of the court.

Mr. LITTLEFIELD. Notwithstanding the fact that where a company is conservatively managed on the assessment plan experience has demonstrated that there is no occasion for the accumulation of a surplus you are willing to go further and accumulate a surplus which is really more than the Government requires?

Mr. DAVIS. Which is more than the experience of the companies has demonstrated is necessary. We have not found it necessary.

Mr. LITTLEFIELD. That, you understand, has been the general experience the country over?

Mr. DAVIS. I should say yes with representative reputable companies that have been carrying on this business.

Mr. STERLING. What advantage would there be in having this much reserve—the amount named in the bill?

Mr. DAVIS. These companies are small companies. They are issuing small policies, as you notice. They are meeting their policies by assessment—that is, not on the survivors, but they have assessments going all the time and they are keeping their funds in shape to meet their requirements. Every year, according to the scheme of this bill, each one of the companies must come forward and show that it has met the maximum on every certificate that has fallen in during the preceding year. If it does not do that it can not go on. The company that can do that should be permitted to go on, because experience shows that it has met its obligations.

The ACTING CHAIRMAN. Are they bound also to show the age of their members and whether they are all growing old at once and whether the assessments, therefore, are falling on the younger members and a fewer number, and whether they are getting new business?

Mr. DAVIS. They will be required, if this bill becomes a law, to make a general exhibit of their whole business, but as to the details of their ages, I should say no.

The ACTING CHAIRMAN. The difficulty with these companies is that the younger men drop out, and the old men stay in and stop paying the assessments.

Mr. DAVIS. That is true. I answer as before; if the company down to the 31st of December preceding shows that it has been meeting its obligations, it is reasonable to expect that it is going to continue to meet them for the next year. A deposit of \$50,000 for a company the size of one of these, or a deposit of \$100,000 where the policy is over \$1,000, has been demonstrated by experience to be more than ample protection for the insured.

Mr. STERLING. Under the provisions of this law, as I understand, you can not use the deposit to pay a policy, and that if you did you would violate the law?

Mr. DAVIS. You can, but it has to be made up again.

Mr. STERLING. When has it got to be made up again?

Mr. DAVIS. It has always to be there. There is a provision that it shall be held there as a guarantee for the performance of the conditions of the policies applicable thereto, and then there is a subsequent provision that if any company shall fail within thirty days after a final judgment or decree to meet that judgment or decree it shall cease to do business and the deposit in the court shall be taken to pay the judgment.

Mr. LITTLEFIELD. Why should it not cease the moment that it fails to pay?

Mr. DAVIS. It gives them thirty days to pay and then it does cease.

Mr. LITTLEFIELD. Thirty days after the decree?

Mr. DAVIS. Yes, sir; in which to pay the decree. That is to give them time to turn around and make the necessary arrangements.

Mr. LITTLEFIELD. Uncontested claims?

Mr. DAVIS. No, sir. They pay them outright.

Mr. LITTLEFIELD. You mean contested claims?

Mr. DAVIS. Yes, sir. If they have a claim and they can not meet it then they must cease. As Mr. Drake has said, there has been some question about the right of assessment companies to incorporate under the law as it stands here in the District of Columbia. Perhaps that never gave me any great difficulty, because while it does not say that they are required to have a capital stock it does not say that they shall not, and they have heretofore incorporated with a very small capital, sufficient for the purpose of equipping themselves and procuring stationery, etc.

Mr. LITTLEFIELD. Do the terms of the statute require capital?

Mr. DAVIS. No, sir. This bill does. In a word, section 653 of the code—I think you were not here when I read it——

Mr. LITTLEFIELD. No.

Mr. DAVIS (continuing). Section 653 contains an exceedingly insufficient, exceedingly incomplete, and very unsatisfactory provision with relation to these companies. Mr. Drake, I am sure, will second that proposition most heartily, because it has been the occasion of a great deal of friction. With reference to incorporation in the District of Columbia, it has been in the main a very satisfactory condition. These companies can be incorporated now without doubt, and if this bill becomes a law they can not do business until they do incorporate, and they can not do business until they get so much money subscribed, and they can not do business until the full deposit has been made in the registry of the court as a guaranty to the insured, and they can not do business until they get the recorder's certificate, and they can not go on and do business unless they can come on the 31st of December and say, "We have met, dollar for dollar, every certificate that has fallen in, and our deposit remains intact in the registry of the court;" and they must be able to do that every twelve months.

Mr. LITTLEFIELD. Who certifies as to their right to do business?

Mr. DAVIS. First, the superintendent of insurance; next, the clerk of the supreme court of the District of Columbia, as to the deposit of the bonds; and then the recorder of deeds.

Mr. LITTLEFIELD. The superintendent of insurance gives you the certificate that gives you the charter and organization?

Mr. DAVIS. Yes, sir; the superintendent and also the clerk of the supreme court of the District of Columbia, who is required to certify that the deposit called for has been made.

Mr. LITTLEFIELD. Can you call my attention to the lines in the bill that provide for the capital stock?

Mr. DAVIS. It is right in the first section, which provides that all assessment companies and so on shall be incorporated before engaging in business in the District of Columbia. Then it provides that they may be incorporated under provisions of the code, provided that every such company shall have cash assets of not less than \$1,000, besides the bonds to be deposited in the registry of the supreme court of the District of Columbia, and before the articles of incorporation of any such company or association are admitted to record by the recorder of deeds, the superintendent of insurance, and the clerk of the supreme court of the District of Columbia shall

certify to said recorder that the said company has complied with the above conditions relative to its cash assets and the deposit of bonds as hereafter provided.

Mr. LITTLEFIELD. How do they get the assets?

Mr. DAVIS. They pay them.

Mr. LITTLEFIELD. Who pays them?

Mr. DAVIS. The subscribers, the incorporators.

Mr. LITTLEFIELD. The incorporators have an interest in this outside of the policy holders?

Mr. DAVIS. That is exactly the difficulty that exists under the old law. They incorporate for the purpose of getting the body and the name. There could not be a corporation otherwise, and they fix the capital stock at \$1,000 or so, to be paid in by the incorporators. That becomes, of course, the cash assets of the concern unless it is spent in furniture, equipment, and stationery in order to get started.

Mr. LITTLEFIELD. They are the company?

Mr. DAVIS. Yes, sir; they are the company so far as the management of it is concerned.

Mr. LITTLEFIELD. Do the policy holders thereafter have any interest in the management of the company or join in with the stockholders?

Mr. DAVIS. It depends upon the charter of incorporation.

Mr. LITTLEFIELD. Under this plan?

Mr. DAVIS. No, sir.

Mr. LITTLEFIELD. You can arrange it just as you like. How many incorporators do you have?

Mr. DAVIS. Not less than three or more than fifteen.

Mr. LITTLEFIELD. Not less than three nor more than fifteen men can go on and have entire control of the company, elect the officers, fix the salaries, arrange the business and manage all the details, prescribe the forms of contract, and all the policy holders do is simply to be in a position to be assessed and to get protection from the company, but the form of contract is arranged by the incorporators or stockholders, the business is looked after by the incorporators or stockholders, and the salaries are fixed by the incorporators or stockholders. They collect the assessments and disburse the assessments in accordance with the policies?

Mr. DAVIS. Theoretically, yes; practically, almost. In the administration of these companies it is absolutely necessary to have incorporators. You therefore can not dispense with the incorporators.

Mr. LITTLEFIELD. You can incorporate a mutual company?

Mr. DAVIS. No, sir.

Mr. LITTLEFIELD. Do you mean to say there is any legal difficulty in the way of incorporating a mutual company?

Mr. DAVIS. In the District of Columbia?

Mr. LITTLEFIELD. Anywhere, under proper laws.

Mr. DAVIS. In the District of Columbia there is no law under which a mutual company can be incorporated.

Mr. LITTLEFIELD. Do you mean to say that there is any legal difficulty when the law authorizes it?

Mr. DAVIS. No, sir.

Mr. LITTLEFIELD. You are predicating your remarks on the law as it now stands?

Mr. DAVIS. Yes, sir; exclusively. If you desire, it is easy enough to write into this bill a provision as to the relation of the insured to the company after they get in.

Mr. LITTLEFIELD. Which do you think is the best way?

Mr. DAVIS. To leave it the way it is.

Mr. LITTLEFIELD. Which is wisest and safest for the public, to have these companies insuring on the assessment plan to be organized by the policy holders, which does not require capital stock, or is it a better plan to have the assessment companies controlled by not exceeding fifteen stockholders, who have entire control of the company?

Mr. DAVIS. Judging by my own experience, I should say the latter.

Mr. LITTLEFIELD. Stock companies with a thousand dollars more or less capital stock?

Mr. DAVIS. Yes, sir; which amounts to nothing except to get started, because the real protection outside of the assessment is in the deposit required to be made.

Mr. LITTLEFIELD. Practically all the capital stock is exhausted in getting the company under way, and there is no individual liability on the part of the incorporators?

Mr. DAVIS. No, sir.

Mr. LITTLEFIELD. The only possible responsibility that a small corporation with practically a nominal capital doing business on the assessment plan would have under these circumstances to the policy holder would be the ability of the corporation to meet its liabilities?

Mr. DAVIS. Or fall back on its deposit in the clerk's office, which, experience has shown, will be ample, because, as I have already said, these companies can only live from year to year by absolute and strict compliance with the law, and it is beyond the bounds of credulity that one of these companies operating on the scale upon which they have been operating here can collapse within a year without leaving the deposit perfectly sufficient and ample to meet all of its liabilities.

Mr. LITTLEFIELD. When one of these companies collapses it collapses within a year, and sometimes within a month, and sometimes within a shorter time, and even if they have paid the liabilities up to the end of one year it is difficult to tell whether by reason of that fact they will be sure to pay them up to the next December.

Mr. DAVIS. But nobody can foretell that. What I am saying is that experience has demonstrated that the call of this bill for the deposit is ample protection, and any other would be actually prohibitory upon these companies to do business.

Mr. LITTLEFIELD. What has been the experience of assessment companies during the last ten or fifteen years in the United States with reference to their ability to carry on their business and adequately take care of their policy holders? Do not take the conservative companies, but take them all.

Mr. DAVIS. I submit that there are gentlemen here who are better qualified to answer that question than I am.

Mr. LITTLEFIELD. The Knights of Honor have had a very serious controversy as to whether the men who have been policy holders for years should stand an arbitrary increase of their assessment, sometimes three or four times the original assessment, and it has brought about a great deal of trouble. It was done very largely because of the fact that as the ages of the men have increased the liability has increased, and they have not been able to take in a sufficient amount of

new blood to take care of the situation. Would you be apt to run into such a situation?

Mr. DAVIS. Judging from experience here, I should say no.

Mr. LITTLEFIELD. You are familiar with that situation?

Mr. DAVIS. Yes, sir. The Royal Arcanum is just going through the same thing. I am not prepared to say that it would not be the part of wisdom, so far as the legislator is concerned, to put some restrictions upon these companies so that they should not be at liberty to change the contracts with the policy holders after they had come in. I realize that unless there is some provision in the law to that effect, that under their articles of incorporation, the by-laws and opportunities, some of these companies might change the assessment from time to time due to the very fact that you speak of. Going by our own experience here, we had a company that everybody thought was a very prosperous and conservative concern that died out because there were not enough people in it to take care of it. That is always the difficulty.

Mr. LITTLEFIELD. What is your company, by the way?

Mr. DAVIS. I am speaking for some four companies, all alike.

Mr. LITTLEFIELD. Here in the District?

Mr. DAVIS. Yes, sir.

Mr. LITTLEFIELD. They all have horizontal assessments?

Mr. DAVIS. Yes, sir.

Mr. LITTLEFIELD. How old a man do you take in your company?

Mr. DAVIS. Sixty years of age.

Mr. LITTLEFIELD. You do have an increased assessment?

Mr. DAVIS. Yes, sir. I find after consultation with a representative of the companies that I have been talking at cross purposes with you. A man pays according to the rate at which he comes in.

Mr. LITTLEFIELD. Then you have an assessment at one rate for a man 20 years of age and another rate for a man 25 years of age, and so on?

Mr. DAVIS. Yes, sir.

The ACTING CHAIRMAN. It does not raise after the first year?

Mr. DAVIS. No, sir.

The ACTING CHAIRMAN. You do not put by any reserve for his contract as he grows older?

Mr. DAVIS. Well, I do not know that I could say "yes" or "no" to that question. It depends upon the administration of the company. With conservative management a company like this might easily enough provide for a reserve without great concern.

Mr. LITTLEFIELD. Your theory is that assessment insurance pays exactly what it costs and no more, which eliminates the reserve?

Mr. DAVIS. That is the idea.

The ACTING CHAIRMAN. Section 56 of the bill says:

That no life insurance company which issues any contract the performance of which is contingent upon the payment of assessments made upon survivors shall do business within the District of Columbia.

And the proposed amendment adds:

Except those companies or associations now authorized to do business in said District and which shall have and maintain a reserve fund on their assessment policies or certificates equal to the net value of such policies or certificates valued as one-year term policies, as provided in section 10 hereof.

Mr. DAVIS. That is entirely satisfactory to us.

Mr. BIRDSALL. Will the same necessity exist if this legislation is enacted?

Mr. DAVIS. Yes, sir. Section 56, which Mr. Parker read, is a prohibition upon certain companies doing business here at all, and the amendment that he has read excepts from that prohibition a certain class of companies. If the Ames bill passes as it is, the class of companies that are mentioned in section 56 will have to quit doing business.

Mr. LITTLEFIELD. That prevents the organization of companies?

Mr. DAVIS. Yes, sir.

Mr. LITTLEFIELD (continuing). That pay only by assessment on survivors?

Mr. DAVIS. That is right.

Mr. LITTLEFIELD. How long have your companies been running?

Mr. DAVIS. Ever since the law was passed in 1887.

Mr. LITTLEFIELD. How much insurance do you carry?

Mr. DAVIS. Roughly speaking, we have liabilities of \$4,000,000 in the aggregate. That is about right.

Mr. STERLING. How are the incorporators recompensed for this \$100,000 which it is proposed to deposit?

Mr. DAVIS. That is a matter of administration that this bill does not touch somehow. My attention was attracted to that. The bill is silent about it. You see the incorporators have got to raise this amount before they start.

Mr. STERLING. It is intended that that provision shall apply to companies already doing business here?

Mr. DAVIS. Yes, sir; otherwise they can not proceed.

Mr. LITTLEFIELD. I would like to ask what the ultimate effect on the policy holder would be?

Mr. DAVIS. The money is deposited in the supreme court of the District of Columbia, and there it stays. No man can get it out except the policy holder.

Mr. LITTLEFIELD. The company has to raise it—that is, the 3 to 15 stockholders have to put in a thousand dollars?

Mr. DAVIS. Yes, sir; in cash.

Mr. LITTLEFIELD. And they deposit another hundred thousand dollars?

Mr. DAVIS. Yes, sir; in bonds.

Mr. LITTLEFIELD. That does not make any difference. Somebody has got to put up the cash somewhere, and in order for the company to get the bonds it must have the cash. How does it get it—from the stockholders?

Mr. DAVIS. Yes, sir; it could not get it anywhere else.

Mr. LITTLEFIELD. According to this plan that you have here or that you contemplate, does the company raise this \$100,000 deposit from its stockholders or its incorporators, which is the same thing?

Mr. DAVIS. It does; yes, sir.

Mr. LITTLEFIELD. Then the company owes the stockholders for that deposit?

Mr. DAVIS. No, sir.

Mr. LITTLEFIELD. Would not the company owe the stockholders for the hire of the money from the stockholders?

Mr. DAVIS. Yes, sir.

Mr. LITTLEFIELD. And the stockholders would have the first charge against the company on the basis of the \$100,000?

Mr. DAVIS. No, sir; because the law subordinates their claim by devoting it first to the payment of these claims.

Mr. LITTLEFIELD. The stockholders pay \$100,000, and let the company have it and deposit it so that it becomes a trust fund for the benefit of the policy holders?

Mr. DAVIS. Yes, sir.

Mr. LITTLEFIELD. And that subordinates their claim?

Mr. DAVIS. Yes, sir. These are interest-bearing securities, and these men are only making an investment. They are not taking money out of their pockets and paying money outright, but they are lending their own investment.

Mr. STERLING. Suppose a company is required to draw \$50,000, then they would have to put up \$50,000 more?

Mr. DAVIS. Yes, sir.

Mr. STERLING. That does not draw interest?

Mr. DAVIS. That is loss.

The ACTING CHAIRMAN. What compensation do the stockholders get?

Mr. DAVIS. Only the interest on the investment they make.

Mr. STERLING. Who elects the officers?

Mr. DAVIS. You can not have these companies run except as joint-stock companies unless you provide somewhere for the organization of mutual companies in the District of Columbia, for which there is now no provision. From the necessity of the situation the men who are the company must elect the officers.

Mr. LITTLEFIELD. That is, the stockholders?

Mr. DAVIS. Yes, sir. The recent developments have made it manifest to everybody that this business of the participation of the policy holders in elections is about the hollowest performance conceivable. While there may be a reaction for a few years, after a while the old conditions will be restored. It is as certain as the sun shines. With the indifference of the policy holders growing more and more and the officials interested in perpetuating themselves in office you will find that they will be going on as before. There has never been any friction between the insurance department and the officials of the companies here.

Now, let me call your attention to section 1 of the Ames bill. This bill does not deal with the class of companies I am talking about, and I would suggest, in order to remove any room for misunderstanding, that after the first section there should be added:

And except assessment life insurance companies or associations, sick, accident, and death-benefit assessment companies or associations, and sick and accident assessment companies or associations now existing and carrying on business in the District of Columbia.

Mr. GILLET. Would that not exclude any company hereafter incorporated? These companies doing business here would have an advantage over the companies coming hereafter?

Mr. DAVIS. I do not care so much about the words.

Mr. GILLET. Why not have a separate law for that?

Mr. DAVIS. There is no objection to that. We do not want to go out of business.

Mr. STERLING. It is your idea that the bill H. R. 19154 be incorporated in the Ames bill?

Mr. DAVIS. That was Mr. Parker's suggestion.

In 1887, when this assessment law was passed, we had not a code or department of insurance, and there was a certain provision that had to do exclusively with a certain class of insurance—the fraternal benefit associations—and the act in itself said that those companies should be subject only to the provisions of this law and of no other law in the United States relating to insurance in the District of Columbia. When the framers of the code got together they took the bill that had been drafted for the creation of a department of insurance, and they thought that they would cover the whole business of insurance in a large chapter dealing on that subject. So they took the earlier law and put it right down in a chapter by itself and tried to say that these associations should be governed by the provisions of that chapter entirely and by no other law.

The courts got at it, and they read the whole thing together, with the result that the will of Congress has been absolutely defeated by subjecting these companies to the operation of certain provisions in the general insurance law from which in the beginning it was announced that they should be exempted, and from which the codifiers attempted to say they should be exempt. My idea would be to leave it out of the Ames bill and let it stand in a little code by itself, and then there can not be any possible confusion about it. As it is now, some of the companies have gone along on the supposition that they were subject to certain sections of the code, and the insurance department has attempted to administer their affairs as subject to different sections, and the case in which the test has been made is now pending in the court of appeals. It is a very simple thing to confuse a provision by putting it in juxtaposition with some other one, but it is very simple if you leave it separate so that it can be construed. Speaking for myself, I think it would be the part of wisdom to enact this in a separate bill.

Mr. LITTLEFIELD. Do your companies do industrial insurance?

Mr. DAVIS. Yes, sir.

Mr. LITTLEFIELD. Do you approve of it?

Mr. DAVIS. I am not sufficiently familiar with it to express an opinion. I have never followed that branch of the subject. The representatives of the companies are here.

Mr. STERLING. I understand you appear here as the attorney for these companies?

Mr. DAVIS. Not at all. I was asked to come here and endeavor to show the result of these gentlemen's experience in the direction of a proper and efficient amendment.

Mr. LITTLEFIELD. They are clients of yours?

Mr. DAVIS. Yes, sir.

Mr. LITTLEFIELD. And you advise them in connection with their affairs and represent them here as their attorney?

Mr. DAVIS. Yes, sir; I have been their counsel for a number of years, and I appear in that capacity.

Mr. DRAKE. The companies that Mr. Davis speaks for are strictly industrial; I understand they do nothing else.

Mr. LITTLEFIELD. I will ask you whether you think industrial insurance is wise or unwise?

Mr. DRAKE. I think it is wise; I am in favor of it.

**STATEMENT OF HON. M. G. BULKELEY, PRESIDENT ÆTNA LIFE
INSURANCE COMPANY, HARTFORD, CONN.**

Mr. BULKELEY. Mr. Chairman and gentlemen of the committee, I trust you will recognize me here not as a Member of Congress, but as a representative to some extent of the insurance interests of my State and of a company of which I have been president for some twenty-five years.

Mr. LITTLEFIELD. Which company is that?

Mr. BULKELEY. The Ætna Life Insurance Company, and I have authority by letter to appear practically for all the companies that have not been represented here, letters from their presidents in regard to the proposed bill.

Mr. LITTLEFIELD. You have devoted your whole life to insurance?

Mr. BULKELEY. I have been brought up in that atmosphere since 1846, which was the time of the inception of life insurance business in Connecticut.

What I desire to say at the outset is not, perhaps, directly connected with the Ames bill, which is before you for consideration, but to statements which I listened to yesterday morning by one of the gentlemen who addressed the committee and which I have seen quoted in the New York and Washington papers. It seems to me that they should not be allowed to go forth to the country without being challenged. The statements were so inaccurate—I think not designedly—that the committee should have the benefit, if I can give it to them, of what I claim to be a correct statement of the matters to which I refer.

I listened to the distinguished actuary who was connected with the Armstrong committee in his comments on the insurance departments of the country, and I had sent to me this morning somewhat similar comments by a distinguished attorney who addressed this committee some time ago on the subject of the Federal supervision of insurance, Mr. Breckenridge, of Omaha, and, if you will permit me, I would like to read what he says, which is so much in accord with the statements made by Mr. Dawson yesterday that they seem to be in practical agreement.

This is an address delivered before the students of the Omaha University by Mr. Breckenridge. Referring to the insurance scandals, Mr. Breckenridge said:

Officials of the various States by their blackmail and schemes to extort money from the companies, have stolen more from the 20,000,000 policy holders of this country than the corrupt officers of the country themselves. It is safe to assert that no State department of insurance has called the attention of the people to any company that has met all their demands for money. The truth is that some of these State insurance departments are sinecures, mere collection agencies, and that they offer the most seductive opportunity for fraud and graft that exists in this country.

For a reputable attorney to make a statement of that kind against the administrative bodies of 45 States, to my mind, as an insurance underwriter, as president of a life company for twenty-five years, and connected with fire interests of my own State, which are very large, is absolutely unwarranted and untrue. It is true that more than half the departments of the 45 States have no companies, except possibly small local ones under their immediate charge.

Mr. LITTLEFIELD. You mean domestic companies?

Mr. BULKELEY. Yes, sir; their own State companies. Not more than half the States; they have either none at all or they are of small local character. They are not engaged in the large agency business of the country.

The trouble with the departments is of an administrative character, and very few, if any, insurance commissioners in the country are responsible for legislation. It is just such legislation as is contained in some of the provisions of the bill which you have before you and which have been enacted into law in various States, and which the insurance commissioners are compelled to administer that call for all the criticisms of late years, especially by the companies. As a general thing, and I might say almost universally—I should not hesitate to say universally—we have at the head of our departments to-day, and have had for twenty years or more, men of high character and men who have administered the duties of their offices in accordance with their interpretation of the laws that have been enacted for their guidance, and, speaking for the companies of my own State, I want to state that I think it is the experience of the New England companies generally that we have had no fault to find during the last twenty-five years with the administration of the laws which insurance commissioners of the various States of the country have been compelled to administer.

We have fault to find and do find fault with the varied legislation of the different States. It is largely on matters of taxation. It is largely on matters of taxation that the differences between the companies and the commissioners arise and the enforcement of the laws which they are obliged to enforce if they hold the office honestly. I want to say that it may go as broadcast as the statement of Mr. Dawson that I think as a whole the commissioners of the various States have the confidence of the men engaged in the business, and the faults we have to find are with the laws more than with their administration. They naturally go together, and the men who enforce the laws get the blame; but the only way, as was said long ago by a very wise man, to secure the repeal of a bad law was to enforce it. So we do not find, as insurance men, great fault with the enforcement of the laws as we find them enacted in the various States. That much I want to say for the benefit of the business and the departments with whom we are constantly engaged.

If you will pardon me, I read in a New York paper, under a headline from Washington, May 15:

Miles M. Dawson startles House committee by statement relating to San Francisco losses.

Washington, May 15. "There is not a fire insurance company in this country that knows whether it will be solvent or not when it pays its San Francisco losses." This statement coming from Miles M. Dawson, actuary for the Armstrong committee of New York, startled the House Committee on the Judiciary to-day.

I am not prepared to say whether that is true or not.

Mr. Dawson was discussing the question of the model insurance regulation act for the District of Columbia.

And he went on to say:

The result of the Chicago fire was to put most all of the American companies out of business, while not one of the British companies failed, notwithstanding they paid every loss they had in that conflagration. Since that time the British companies

had been constantly increasing their business. This was not because the English companies had any more money, nor were any better insurance men, but because the laws of this country required American companies to hold a reserve fund amounting to 50 per cent of their capital. The reserve of the British companies was only 30 per cent. This allowed these companies a larger capital to meet such a loss as was occasioned in Chicago.

The lesson should have been learned then that it was not a large legal reserve that made a company solvent. American companies which could not get into their 50 per cent reserve went into the hands of receivers.

I find a similar article in the Washington Post of this morning, headed—

FRISCO FIRE A BLOW—EXPERT FEARS FOR SAFETY OF INSURANCE COMPANIES.

The significant statement was made in the course of a discussion of the Ames insurance bill yesterday that "not a fire insurance company in this country knows whether it will be solvent or not when it pays its San Francisco losses."

That is the substance of the article. I want to say to the committee and to the country, if you will permit me, that there is not a fire insurance company in America to-day that does not know whether it is solvent or not when its San Francisco losses are paid. If the statements of the New York and Connecticut departments can be relied upon, as I think they both can, and from my own personal knowledge of the different companies with which I am connected directly or indirectly, there are but two or three of the fire insurance companies that can not pay their losses out of their surplus, leaving their capital and a large surplus behind them, so that they can go on and continue their business.

And I want to say for one of the companies of my own city that while its losses in San Francisco will consume a large part of its capital and surplus, its stockholders have already contributed a new capital and surplus of \$4,000,000 and the company will go on solvent under the regulation of a 50 per cent reserve, with from \$18,000,000 to \$20,000,000 of assets after its San Francisco losses are paid, and the only other company of large size that is in that condition, the only company in the United States, so far as I am able to study the tables, is a company in Chicago that I understand has followed the suit of the company I referred to in my own State.

If the committee will take the time at their leisure to examine and make a comparison between the foreign and American companies, and see the conditions which prevail with the large, almost unexampled losses which they sustained in San Francisco—the business of many of them was confined to the Pacific coast—you will find that they have met the situation as underwriters always do, and that where the funds in the hands of their American representatives have failed to be equal to the emergency that they have replenished from their foreign exchequers ample amounts for all the companies, and have met the large liabilities in San Francisco, amounting to between forty and fifty millions of dollars, with the utmost alacrity.

Mr. LITTLEFIELD. How long has the information you are quoting been published?

Mr. BULKELEY. I have seen it alluded to before. This is a paper of May 15, yesterday, published in Connecticut. This statement shows that the capital of the companies of New York State and the other States and foreign countries amounts to \$82,000,000; their net surplus on the 1st of January was \$112,000,000; their surplus to

policy holders was \$208,000,000, and the San Francisco losses amount to \$113,000,000. That takes in all the companies interested in the San Francisco fire.

The gentlemen made a comparison with the Chicago disaster. I want to say that the situation is absolutely different. These companies in thirty years have grown from puny institutions, comparatively, to institutions of great magnitude and strength under the prevailing laws and systems which have been inaugurated through the wisdom of years of experience in insurance in this country, and I do not believe that you can get fire-insurance men anywhere to ask for one moment to have the system of reserve changed.

The statement referred to by Mr. Bulkeley follows:

Fire losses at San Francisco—Total is \$113,441,595 for all companies, as now computed—Tables by New York insurance commissioner—Standing of Hartford companies as to surplus, according to rule in this State.

The insurance commissioner of New York made public some very interesting figures yesterday, giving the results of his inquiry among the fire companies as to their losses at San Francisco. The tables which he gave out for publication show the capital, surplus to policy holders, and net to stockholders (the difference being the capital), and the estimated losses. The New York rule for ascertaining the surplus makes it less than it is by the rules of other States, and to that extent the companies do not show up their full strength. The result of the New York tabulations indicates that the New York State companies lose about \$18,944,000 by the disaster, the companies of other States lose about \$44,827,499, and the foreign companies about \$49,670,096, a total of \$113,441,595.

The Hartford companies appear in the long list accompanying this article with the surpluses as scheduled by the New York regulation, but the following table in which they are grouped gives their standing under the Connecticut rule; it gives the losses as they have been reported to the New York authorities, and these were confirmed yesterday by inquiries by Courant reporters.

	Assets.	Surplus (including capitaliza- tion).	Estimated Losses.
Etna.....	\$16,815,297	\$11,036,011	\$2,700,000
Connecticut.....	5,813,619	2,729,173	1,775,000
Hartford.....	18,061,927	6,400,696	6,750,000
National.....	7,304,959	3,314,305	1,740,591
Orient.....	2,416,979	1,297,529	700,000
Phoenix.....	8,140,630	4,382,270	1,600,000
Scottish Union and National.....	58,553,411	29,159,984	14,265,591
	5,379,583	3,338,058	1,250,000
	63,932,994	32,498,042	15,515,591

It is to be borne in mind that the Hartford has added \$3,750,000 to its assets and the same amount to its gross surplus, which includes capital. The conclusion of the statement, as far as this city is concerned, is that something over \$15,000,000 will probably be paid by local companies to reimburse San Francisco, and that this gigantic sum is not a quarter of the assets of the companies of this city, nor a half of their combined surplus as to policy holders.

Following is the New York table in full:

NEW YORK STATE COMPANIES.

	Capital on Dec. 31, 1905.	Net surplus on Dec. 31, 1905.	Surplus to policy hold- ers Dec. 31, 1905.	Estimated net loss in California conflagra- tions.
Agricultural	\$500,000	\$857,261.55	\$1,857,261.55	\$750,000
Insurance Company of America ^a	400,000	223,504.39	623,504.39	250,000
British American	200,000	118,726.87	318,726.87	75,000
Buffalo German	200,000	1,634,627.36	1,834,627.36	200,000
Caledonian American	200,000	91,777.68	291,777.68	50,000
Colonial Assurance	200,000	130,254.77	330,254.77	15,000
Commercial Union Fire	200,000	130,124.02	330,124.02	110,000
Commonwealth	500,000	504,977.23	1,004,977.23	39,000
Continental	1,000,000	8,424,225.13	9,424,225.13	1,900,000
Dutchess ^b	200,000	175,519.48	375,519.48	175,000
Eagle Fire Co ^c	300,000	376,072.32	676,072.32	300,000
Empire City Fire	200,000	88,345.43	288,345.43	40,000
German Alliance	400,000	629,131.54	1,029,131.54	225,000
German American	1,500,000	6,442,674.78	7,942,674.78	2,000,000
Germania Fire	1,000,000	2,889,660.92	3,889,660.92	1,690,000
Glenn Falls	200,000	2,594,064.99	2,794,064.99	1,000,000
Globe & Rutgers Fire	400,000	1,256,146.92	1,656,146.92	450,000
Hanover Fire	1,000,000	925,515.83	1,925,515.83	700,000
Home	3,000,000	8,720,501.34	11,720,501.34	1,500,000
Indemnity Fire	200,000	94,785.53	294,785.53	85,000
Nassau Fire	200,000	248,857.52	448,857.52	150,000
New York Fire ^d	200,000	61,682.08	261,682.08	200,000
Niagara Fire ^e	500,000	1,810,411.59	2,310,411.59	1,000,000
North British and Mercantile	200,000	496,026.22	696,026.22	12,500
Northern	350,000	100,995.67	450,995.67	2,500
North German Fire	200,000	90,156.63	290,156.63	160,000
North River	350,000	440,894.93	790,894.93	325,000
Pacific Fire	200,000	168,791.92	368,791.92	30,000
Pelican Assurance ^f	200,000	119,802.72	319,802.72	250,000
Peter Cooper Fire	150,000	81,906.25	231,906.25	40,000
Phenix	1,000,000	2,236,779.19	3,236,779.19	1,750,000
Queen Insurance Company of America	1,000,000	2,722,650.53	3,722,650.53	1,500,000
Rochester German	200,000	489,659.28	689,659.28	400,000
Stuyvesant	200,000	152,111.62	352,111.62	70,000
United States Fire ^g	250,000	60,329.75	310,329.75	100,000
Victoria Fire	200,000	69,773.65	269,773.65	50,000
Westchester Fire	300,000	1,678,127.88	1,978,127.88	600,000
Williamsburgh City Fire	250,000	1,492,093.03	1,742,093.03	750,000
Total	19,550,000	50,141,946.44	69,691,946.44	18,944,090

^a At a meeting of the directors held on May 5 it was resolved to make good any impairment.

^b Company states that any impairment of capital will be made good by directors.

^c Stockholders will make good any impairment of funds.

^d Reinsured in New Hampshire Fire on May 4 and suspended business.

^e Will increase resources \$1,000,000 as soon as statutory requirements can be complied with.

^f Company advises that stockholders will make good any impairment.

^g Reinsured outstanding risks in Westchester Fire and ceased writing business.

OTHER STATE COMPANIES.

Aetna, Connecticut	\$4,000,000	\$6,862,984.38	\$10,862,984.38	\$2,700,000
Alliance, Pennsylvania	500,000	457,768.20	957,768.20	500,000
American, Massachusetts ^a	300,000	89,608.39	389,608.39	400,000
American, New Jersey	600,000	2,430,459.41	3,030,459.41	1,000,000
American Central, Missouri	1,000,000	1,431,518.06	2,431,518.06	500,000
American Fire, Pennsylvania ^b	500,000	253,890.94	753,890.94	500,000
Atlanta-Birmingham Fire, Alabama ^c	250,000	43,948.58	293,948.58	100,000
Calumet, Illinois ^d	200,000	251,132.80	451,132.80	600,000
Camden Fire Association, New Jersey	400,000	516,340.14	916,340.14	400,000
Citizens, Missouri	200,000	190,220.50	390,220.50	158,000
Colonial Fire, District of Columbia ^e	200,000	33,733.44	233,733.44	100,000
Columbia, New Jersey	400,000	9,365.91	409,365.91	7,221
Concordia Fire, Wisconsin	200,000	194,845.29	394,845.29	200,000
Connecticut Fire, Connecticut	1,000,000	1,693,972.70	2,693,972.70	1,775,000
Delaware, Pennsylvania	702,875	200,871.23	903,748.23	402,000
Eastern Fire, New Jersey	200,000	121,380.38	321,380.38	60,000

^a Ceased writing business in New York April 27, 1906.

^b Reinsured in Commercial Union Assurance of England.

^c Company states that arrangements are being made to make good any impairment of funds.

^d At meeting of directors April 26 extra funds were provided to pay California losses. Assets will be unimpaired.

^e Meeting of directors called for May 21, when proper action will be taken to meet emergency caused by California disaster.

OTHER STATE COMPANIES—Continued.

	Capital on Dec. 31, 1905.	Net surplus on Dec. 31, 1905.	Surplus to policy hold- ers Dec. 31, 1905.	Estimated net loss in California conflagra- tions.
Equitable Fire and Marine, Rhode Island ^a	\$400,000	\$238,591.01	\$638,591.01	\$250,000
Fire Association of Philadelphia, Pennsylvania.....	500,000	1,513,102.71	2,013,102.71	1,200,000
Federal, New Jersey ^b	500,000	856,184.69	1,856,184.69	600,000
Fireman's Fund, California ^c	1,000,000	2,070,523.49	3,070,523.49	2,800,000
Franklin Fire, Pennsylvania.....	400,000	996,672.18	1,396,672.18	800,000
German National, Illinois.....	200,000	154,347.80	354,347.80	150,000
German of Freeport, Illinois ^d	200,000	1,952,065.24	2,152,065.24	1,532,716
German Fire, Illinois.....	200,000	126,444.47	326,444.47	100,000
Girard Fire and Marine, Pennsylvania.....	300,000	697,863.61	997,863.61	450,000
Hartford Fire, Connecticut.....	1,250,000	5,124,820.29	6,374,820.29	5,750,000
Home Fire and Marine, California ^f	300,000	500,080.99	800,080.99	1,200,000
Indianapolis Fire, Indiana.....	200,000	98,632.51	298,632.51	25,000
Insurance Co. of North America, Pennsylvania.....	3,000,000	3,847,236.97	6,487,236.97	2,000,000
Insurance Co. State of Pennsylvania, Pennsylv- ania.....	200,000	84,170.29	284,170.29	8,250
Mercantile Fire and Marine, Massachusetts ^g	400,000	68,281.21	468,281.21	310,000
Michigan Fire and Marine, Michigan.....	400,000	282,687.02	682,687.02	250,000
Milwaukee Fire, Wisconsin ^h	200,000	155,284.69	355,284.69	170,000
Milwaukee Mechanics, Wisconsin ⁱ	200,000	1,357,209.98	1,557,209.98	1,296,000
National Fire, Connecticut.....	1,000,000	2,180,980.58	3,180,980.58	1,740,591
National Union Fire, Pennsylvania ^j	750,000	298,940.45	1,048,940.45	1,000,000
New Brunswick Fire, New Jersey ^k	200,000	44,522.05	244,522.05	50,000
New Hampshire Fire, New Hampshire.....	1,000,000	1,237,647.54	2,237,647.54	600,000
Northwestern National, Wisconsin.....	600,000	1,223,337.52	1,823,337.52	499,766
Orient, Connecticut ^l	500,000	797,529.31	1,297,529.31	700,000
Pennsylvania Fire, Pennsylvania.....	400,000	2,992,689.99	3,392,689.99	2,250,000
Phoenix, Connecticut.....	2,000,000	2,380,939.39	4,380,939.39	1,600,000
Providence, Washington, Rhode Island ^m	500,000	668,038.61	1,168,038.61	600,000
St. Paul Fire and Marine, Minnesota ⁿ	500,000	1,315,877.31	1,815,877.31	1,000,000
Security, Connecticut ^o	500,000	361,004.78	861,004.78	315,000
Security Fire, Maryland ^p	200,000	42,445.63	242,445.63	100,000
Springfield Fire and Marine, Massachusetts.....	2,000,000	1,966,024.30	3,966,024.30	1,676,455
Spring Garden, Pennsylvania.....	400,000	290,485.47	690,485.47	150,000
Teutonia, Louisiana.....	250,000	136,624.46	386,624.46	150,000
Traders, Illinois ^q	500,000	1,844,722.63	1,844,722.63	2,748,000
Union, Pennsylvania.....	200,000	156,676.15	356,676.15	150,000
United Firemen's, Pennsylvania.....	300,000	224,569.86	524,569.86	200,900
Virginia Fire and Marine, Virginia.....	250,000	335,795.72	585,795.72	No loss.
Virginia State, Virginia.....	200,000	126,230.55	326,230.55	3,500
Western, Pennsylvania.....	300,000	68,296.74	363,296.74	No loss.
Total.....	40,602,875	61,734,221.08	102,337,086.08	44,827,499

^a Stockholders will contribute funds to prevent any impairment of capital.^b Admitted to New York State to write marine business only.^c Directors have voted unanimously to pay all losses in full and continue business.^d Stockholders have offered to increase surplus \$1,000,000 if necessary.^e Directors have taken action increasing capital of company to \$2,000,000 and surplus by \$3,000,000.^f Directors have voted unanimously to pay all losses in full and continue business.^g Reinsured in American Central of St. Louis. Not writing new business.^h Has arranged for voluntary contribution of \$150,000 from stockholders.ⁱ Steps have been taken to increase capital and surplus by \$1,000,000.^j Stockholders have subscribed \$750,000.^k Stockholders paid in \$100,000 to surplus account.^l Loss will be paid and capital left intact with comfortable working surplus.^m At meeting of directors April 24 it was voted to make good any possible impairment of capital.ⁿ After paying California losses will show capital and surplus of \$500,000 each.^o Directors will make good any possible impairment.^p Any impairment of capital will be made good.^q Byron L. Smith, of Chicago, appointed receiver on May 5, 1906.

FOREIGN FIRE COMPANIES—UNITED STATES BRANCHES.

	Net assets, or United States capital, on Dec. 31, 1905, under section 27 of insurance law.	United States surplus to pol- icy holders on Dec. 31, 1905.	Estimated net loss in Califor- nia conflagra- tions.
Aachen and Munich Fire	\$383, 193. 80	\$628, 454. 51	a \$2, 000, 000
Alliance Assurance	452, 618. 19	581, 935. 87	1, 386, 666
Atlas Assurance	349, 371. 24	801, 632. 32	a 1, 250, 000
British America Assurance	238, 620. 43	496, 402. 93	260, 000
Caledonian	343, 788. 66	667, 260. 15	a 1, 193, 482
Cologne Reinsurance	357, 458. 24	453, 960. 16	875, 000
Commercial Union Assurance	898, 085. 14	1, 570, 994. 09	1, 300, 000
Hamburg-Bremen Fire	264, 652. 46	504, 268. 10	1, 100, 000
Insurance Co. Salamandra	381, 263. 08	583, 254. 79	300, 000
Law, Union and Crown	457, 575. 26	576, 036. 66	a 1, 000, 000
Liverpool and London and Globe	3, 081, 157. 50	5, 262, 279. 77	a 3, 500, 000
London Assurance Corporation	610, 490. 05	857, 681. 75	a 4, 000, 000
London and Lancashire Fire	309, 948. 94	1, 149, 732. 19	b 3, 500, 000
Moscow Fire	460, 580. 06	634, 858. 98	250, 000
Munich Reinsurance	425, 205. 73	1, 293, 220. 73	2, 000, 000
North British and Mercantile	2, 112, 712. 24	2, 939, 531. 23	a 3, 000, 000
Northern Assurance	795, 258. 51	1, 365, 347. 59	a 2, 000, 000
Norwich Union Fire	614, 843. 92	891, 797. 64	a 1, 200, 000
Palatine	794, 592. 21	1, 069, 663. 42	1, 000, 000
Phoenix Assurance	530, 569. 06	1, 295, 270. 60	c 1, 600, 000
Prussian National	949, 544. 58	486, 016. 92	a 444, 948
Rosalia	532, 598. 40	733, 244. 62	a 760, 000
Royal	1, 761, 520. 08	2, 852, 125. 72	3, 825, 000
Royal Exchange Assurance	574, 670. 67	894, 224. 84	a 2, 000, 000
Scottish Union and National	2, 548, 790. 50	3, 338, 057. 82	1, 250, 000
Skandia	327, 086. 65	412, 734. 68	525, 000
Sun Insurance Office	407, 708. 53	873, 275. 20	a 2, 000, 000
Svea Fire and Life	236, 230. 92	371, 342. 73	a 750, 000
Transatlantic Fire	236, 968. 10	351, 106. 41	4, 000, 000
Union Assurance Society	591, 514. 70	870, 314. 36	a 1, 500, 000
Western Assurance	301, 156. 36	782, 945. 00	400, 000
Total	22, 193, 121. 52	36, 125, 436. 26	49, 670, 096

a United States manager advises that loss will be paid by funds from home office, the United States surplus company suffering no depletion in consequence of California disaster.

b United States manager writes that California loss will be paid by home office funds, with the exception of \$300,000, which will be paid from United States branch funds.

c United States manager states that United States surplus will be \$1,000,000 after all California losses are paid, balance being paid by home office.

RECAPITULATION.

	Capital on Dec. 31, 1905.	Net surplus on Dec. 31, 1905.	Surplus to policy holders Dec. 31, 1905.	Estimated net loss in California conflagra- tions.
New York State joint-stock fire and fire-mar- ine insurance companies	\$19, 550, 000	\$50, 141, 946. 44	\$69, 691, 946. 44	\$18, 944, 000
Joint-stock fire and fire-marine insurance companies of other States	40, 602, 875	61, 734, 221. 08	102, 337, 096. 08	44, 827, 499
Mutual fire insurance companies of other States		386, 619. 64	386, 619. 64	No loss.
Foreign fire insurance companies, United States branches	a 22, 193, 121		b 36, 125, 436. 26	49, 670, 096
Aggregate	82, 345, 996	112, 262, 787. 16	208, 541, 096. 42	113, 441, 596

a United States capital under section of insurance law. b United States surplus to policy holders.

Mr. STERLING. Was the total loss \$213,000,000 or \$113,000,000?

Mr. BULKELEY. The New York department requested all the companies transacting business in the State of New York to make returns, and they show that the losses amount to \$113,000,000.

Mr. GILLET. Does that include all the California losses?

Mr. BULKELEY. Yes, sir; except the Firemen's Fund and the Home Company, and you have also on the coast a very considerable number of companies from the Continent that only transact business on the coast in this country, so you never hear of them in the East.

Mr. BIRDSALL. The policy holders need not be apprehensive of existing conditions which they might feel from the statement made yesterday?

Mr. BULKELEY. No, sir; and I want that statement to go broadcast to the country as strong as I can make it.

Mr. BIRDSALL. The statement was a very alarming one?

Mr. BULKELEY. There is no question about it, and it was entirely unjustified.

Mr. GILLETT. I understand that the 30 per cent reserve is shown by the experience of fire insurance companies to be sufficient?

Mr. BULKELEY. I do not think you got from Mr. Dawson's statement a right impression of what the conditions in other countries are. In Great Britain the fire insurance companies are under no sort of government control. They make their own assumptions and they make their own policies. They report to the board of trade—make an annual report to the board of trade—and they are only required to live up to their contracts. There is no specific governmental control in Great Britain. It is somewhat different in some of the continental countries, but that is the condition under which the great English companies transact business in this country. In the United States, perhaps you all understand, the requirement is that a foreign company of that character must have in some one State a deposit, \$200,000 I think is the sum, and they go on and accumulate from their American business a very large amount of surplus. I have the honor to be the trustee of one of the large English companies whose headquarters are in my own State, and with a deposit of \$200,000 we have accumulated something over \$3,000,000, and we are able to pay our losses of a million and a quarter or a million and a half from our surplus funds accumulated from the American business. That is not true of all of the English companies.

If you will observe the statement you will see that the losses of the English companies are perfectly enormous; but as stated at the outset of my remarks they exceed vastly in many instances their accumulations in this country. On a 50 per cent reserve or on a 30 per cent reserve they would not have been any better. It has taken all the money they had here. It is a safe basis. It is a basis of experience of forty or fifty years, and I think that otherwise the companies could not have grown up under it, practically in thirty years—since the Chicago fire of 1871—and accumulated these large surpluses and large reserves that have enabled the great, and I might say small, American companies, to stand up under this great calamity which came to the people of the Pacific coast.

Mr. LITTLEFIELD. The estimated losses of the foreign companies in the San Francisco fire were \$49,670,096; about \$50,000,000?

Mr. BULKELEY. Yes, sir.

Mr. LITTLEFIELD. Almost half the total loss?

Mr. BULKELEY. Yes, sir.

Mr. LITTLEFIELD. And the surplus to policy holders, December 31, 1905, both United States and foreign, was \$208,541,098, against losses of \$113,441,595, showing a surplus of about \$95,000,000?

Mr. BULKELEY. I think that is right.

Mr. LITTLEFIELD. That seems to be some distance from insolvency?

Mr. BULKELEY. Yes, sir. This is what the intelligent fire underwriters of the country for thirty years have been striving to do, to

put themselves in a position where when a calamity comes, as it has to us in this country four, five, or six times, never, perhaps, to such an extent as on the Pacific coast, with the combination of earthquake and fire, they can meet it.

Mr. LITTLEFIELD. The foreign companies carry a great deal of insurance in the West?

Mr. BULKELEY. I think it figures very small, because they do business all over the world.

Mr. LITTLEFIELD. But as compared with the balance of insurance in this country they probably do a larger part in San Francisco.

Mr. BULKELEY. For the reason I stated, that a large number of companies, principally from the Continent, transact business nowhere else in the United States except on the Pacific coast.

Mr. DE ARMOND. What is there in the newspaper reports that the rates have been advanced?

Mr. BULKELEY. I can not say. I am not familiar with it because I am away from home. From the statements that I have read in the papers I think it would be the most natural thing in the world, so far as San Francisco is concerned, if the rates were advanced. If people want insurance under present conditions with a short supply of water and other conditions which prevail there, it necessarily involves a far greater hazard than ordinarily.

Mr. DE ARMOND. I understood from the newspaper statement that the insurance rates had been advanced generally throughout the country?

Mr. BULKELEY. I have the honor to be connected with one of the largest fire-insurance companies and one of the oldest companies in the country, and I happened to be home immediately after the San Francisco disaster and I know the sentiment of the gentlemen in charge of the management was against any horizontal raising of rates in order to recoup losses; but you must all understand, and I think you do, that the large amount of money for the payment of losses has got to be provided from the business itself; and from long years of experience with those calamities, coming under modern conditions more frequently than we have been accustomed to in years that have passed, there may be a necessity for providing in some way for ampler and larger accumulations, out of which to meet these calamities when they come.

Mr. DE ARMOND. From what you stated, Senator, that would hardly seem to be necessary. You instanced a British company in your own city that had accumulated \$3,000,000, only one-half of which is pledged.

Mr. BULKELEY. I would have to put up against that record the record of older British companies that have been here for years, and much larger in size, that they absorbed more than their surplus funds; and they will pay their San Francisco losses in full, retaining intact the funds they have accumulated in their American offices.

Mr. BIRDSALL. The prime object of a reserve of a fire-insurance company is to insure the ability of the company to go on and do business when calamity overtakes it?

Mr. BULKELEY. The object of the reserve is to provide for the reinsurance of their existing risks, so that in order to be solvent they have got not only to have money enough to meet their losses, but money enough with which under the law to carry your and my policies until they mature, and that is what constitutes the reserve. These com-

panies have either got to take out of their capital or out of their surplus these enormous San Francisco losses, because their insurance reserve is merely to carry their running business to maturity.

Mr. GOULDEN. Would the Senator permit me to make an interruption?

Mr. BULKELEY. If you would not dignify me with the title of Senator, I would. [Laughter.]

Mr. GOULDEN. I am not a member of that august body, but I understood some of the Members of the House recently promoted to that body have been called down, and I wish to go upon record before the committee, not as a Member of Congress, but as an insurance man of forty years' experience, as condemning the statement made by the distinguished gentleman from New York yesterday and approving the statement made to-day. I want to indorse every word that the Senator has so ably said regarding the matter of fire insurance, and also what he has said with respect to the departments of insurance in this country.

Mr. BULKELEY. It has been suggested to me, in response to the question that the gentleman asked in regard to the increase of rates, that I think the general discussion amongst the insurance fraternity has been with regard to the risks within the congested districts of our great cities, where they are enormous within a small territory, more than to any general increase of the rate.

Now, if you will excuse me for taking up your time in that discussion, I want to say for the Connecticut companies, fire and life, that we are not here to appear in opposition to the Ames bill or to any other legislation which shall tend to elevate the law which the various insurance departments of the country are called upon to administer. I had the honor nearly a year ago, in the discussion of the question of Federal supervision of insurance at a convention of the casualty underwriters of the country, and afterwards in a discussion of the same matter with the President of the United States, to state that in my judgment, as a consistent believer that insurance does not come under the provisions of our Constitution so as to be regulated by Congress, Congress has supreme authority over the District of Columbia; that it could enact legislation for the District of Columbia and create a department here which should be a credit to the makers of the law, and which in its administration should be a model for the departments of the country.

And I want to say, Mr. Chairman and gentlemen of the committee, that I think you will find, without exception, that this great interest, life and fire, which I in a measure represent, will cooperate always to the fullest extent in the building up of this beneficent business and not indulge in any efforts to pull it down.

The recent investigations in our sister State, in the State of New York, and the results of that investigation in the enactment of the laws which I see distributed around your table here, relate almost entirely to the administrative duties and to a very moderate extent to any general principles which should govern the administration of the insurance business, except as relating to the administration of the internal affairs of a company, and which, I think, Mr. Dawson correctly stated here yesterday, when he said that the Armstrong committee refused to indulge in any proposed legislation except as the

necessity for it had developed as the result of that examination. I think I am right, Mr. Ames, about that.

Now, I did not wish to criticise the Ames bill as it was first presented for our consideration. Its author and the gentlemen connected with its preparation have criticised it, perhaps, to a very much larger extent than I could in these various amendments—this long list of amendments, many minor in their details, that have seemed necessary to perfect in a measure the bill as it was first sent to Congress, coming as it did with a message from the President; not exactly with, but practically with the message of the President of the United States, recounting the results of the convention held in Chicago, and commending the legislation which was to follow—proposed legislation which was to follow—and which we have.

Now, from the time that the bill was first introduced to the date of this reprint, April 30, there is this last score of amendments which I, being a somewhat busy man, have not had time to go through. What I think is this, that we should take time to enact and to prepare. I have no doubt that my friend has given the most careful study to this bill, and I commend his work, for I know the time and thought and intelligence required to draft a law, and I know that it is impossible for one or two or three men to get together the necessary elements and construct, in the short space of time that could be devoted to it, a law which would meet my ideals of what I would hope would be the legislation of this Congress whenever they prepare another code for the District of Columbia.

Of course, a large part of this bill is taken up with details, with forms of policies, standard policies, and several pages with forms of returns. It is only a suggestion—I have just brought this with me [indicating specimen form of return] to show you how simple and yet how extensive are the requirements at present.

Mr. LITTLEFIELD. Excuse me, Senator, but have you duplicated the paper that you submitted to the stenographer a few moments ago?

Mr. BULKELEY. No, sir; I have not. It has come in my mail every morning—

Mr. PARKER. I will send for 20 copies.

Mr. BULKELEY. It does not seem to me that there is any necessity, in enacting a code of laws, to prescribe the form of a return, and it is my opinion that that should be very largely left to the Department to determine; and the result of forty or fifty years' experience with the Departments, working in connection with the companies, has been to develop practically a uniform blank, so that with the exception of two or three States we have a uniform blank, formed under the direction of the insurance commissioners, which, I think, is in detail as close an examination of the business of a corporation as could be conceived, coming down, as it does, to the expenditure of a postage stamp or telegram. If any of you choose to examine it, there is what we call the uniform blank [submitting same]. That is the return made to the District of Columbia. I am engaged in a good many classes of business. The Aetna Life transact a life, personal accident and health, and what we call a liability business, affecting persons, not property.

Mr. PARKER. Does that blank provide that returns of profits or dividends on tontine policies shall be made?

Mr. BULKELEY. It provides for a loss and gain account.

Mr. PARKER. I mean those special classes of policies?

Mr. BULKELEY. No; it is intended in loss and gain to show in the statement what the profits are in a year, so that one can determine from that loss and gain exhibit whether we are spending more than the loadings that were intended to be used for obtaining the business. Now, there are the complete returns of the business of \$13,000,000 of premiums covering life, about \$10,000,000 covering personal accident, about \$3,000,000 of liability, and health of about \$2,000,000 [submitting specimen returns]. There are the returns to the various departments.

Mr. STERLING. Covering what length of time?

Mr. BULKELEY. One year.

Mr. AMES. An interruption, Senator. On page 8 of this draft, Form A, the form for life insurance companies, your form there follows this rather closely, does it not?

Mr. BULKELEY. I presume it does. What I say should not be confined to insurance superintendents. I do not know but that this provides that they can ask other questions, but it does not seem necessary to burden up a code with the form of returns. I do not think there is half in there that there is in this report [indicating same]. I do not think you could put it in unless you published a book about as large. [Laughter.]

Now, those [indicating same] cover a business of thirteen or fourteen million dollars in detail. There is a list of bonds and mortgages [submitting list].

Mr. STERLING. Is there anything in the bill required to be reported that is objectionable?

Mr. BULKELEY. No, sir; but what I object to is to lay down a cast-iron rule.

Mr. GILLET. Colonel Bulkeley says that the form already made is more complete than the form called for.

Mr. BULKELEY. Yes, sir; there is a list of the assets outside of bonds and mortgages. [Submitting printed statement.] These are blanks prescribed by the commissioners as the result of thirty years' experience. There you will find a list of collateral loans [submitting document], the details and market values of every security.

Mr. PARKER. Where could we get copies of those blanks?

Mr. BULKELEY. I presume Mr. Drake, of the department here, can furnish you with those.

Mr. DRAKE. We have them.

Mr. BULKELEY. Now, the companies in Connecticut have no objection to any suitable examination by any commissioner, if it is necessary. You provide for certain certificates that shall be accepted by the commissioner; that he shall not make any examination, that he shall make one, and all that kind of thing. I think there should exist a comity between the States by which officials should be recognized, and that if the commissioner of the District of Columbia or of any State, unless he has good reason to believe that a State insurance department is corrupt, should be satisfied with a certificate of solvency from the commissioner of the State in which the company is located, and if he wants additional information he should acquire it through the commissioner of that State, or in conjunction with him, if he desired to make an examination.

Mr. AMES. Another interruption, Senator. On page 10 of this bill, section 11—

(11) A complete statement of the profits and losses upon the business transacted during the year, and the sources of such gains and losses, and the actual expenses chargeable to the procurement of new business incurred since the last annual statement, and also showing the manner in which any general outlays of the company have been apportioned for the purpose of arriving at the amount of such expenses.

Is not that a requirement beyond your form of a return?

Mr. BULKELEY. There is nothing there, except reasons assigned for resisting or compromising the same. You will find in every report death claims resisted or compromised. You will find that in every report, I think; in fact I am quite certain that particulars of reasons assigned for compromising the same are given.

Mr. AMES. Section 11?

Mr. BULKELEY (reads):

A complete statement of the profits and losses on the business transacted during the year, and the sources of such gains and losses, etc.

I think you will find that is what is known as the "loss and gain exhibit," which was originated by the Wisconsin department and which is required in most of the States.

Mr. AMES. Does not this give more complete information with regard to the sources of such losses or gains?

Mr. BULKELEY. I do not think so.

Mr. AMES. Go to page 11, section 13.

Mr. BULKELEY (reads):

The rates of annual dividends declared during the year for all plans of insurance and all durations and for ages at entry, twenty-five, thirty-five, forty-five, and fifty-five, and the precise methods by which such dividends have been calculated.

Mr. AMES. We have submitted an amendment to that, making it the rate of premiums and annual dividends.

Mr. PARKER. I can not hear that.

Mr. AMES. We have submitted an amendment changing that section 13 so as to read: "The rate of premiums or annual dividends."

Mr. BULKELEY. Can you tell me some way in which we can incorporate in the annual report all that there is in that book? [Laughter.]

Mr. AMES. We are not seeking that.

Mr. BULKELEY. That is what you are asking for, and that is just what is in that book.

Mr. AMES. I do not believe I am technically informed enough in your profession to be able to answer your objection.

Now, the next section, section 14—

Mr. BULKELEY (reads):

A statement showing the rates of dividends declared upon the deferred dividend policies completing their dividend periods for all plans of insurance, and the precise method by which said dividends have been calculated.

That is a requirement that might possibly be met, but all companies have different methods of calculating dividends. One thinks it has a better method than the other. One thinks it has one that is more to the advantage of the policy holder than the other; one that produces better results to the policy holder than some other companies.

We claim that we are entitled to the benefit of our ingenuity and should not be obliged to expose it to our competitors in the business,

and if we can conceive in our own minds a system of business for our own company; that is, a better scheme than somebody else's, either in the declaration of dividends or in the administration of our affairs, we claim we are entitled to the benefit of that ingenuity, just the same as a great corporation or an individual is entitled to the benefit which he secures by coming down here to Washington and obtaining a patent on some great invention. We come here with a copyright in which we try to preserve some of the ideas that we may have evolved in the course of our business, ideas that nobody else has, and I do not believe that any commissioner is entitled for his own benefit or for the benefit of any inquiring policy holder, perhaps, to have that information, and I do not think the company should be required to put into its annual report the manner of computing the different classes of dividends which we have—some annual, some deferred, some yielding no dividends at all.

Mr. STERLING. Of course, the record shows the amount of dividend declared?

Mr. BULKELEY. The loss and gain exhibit shows all that.

Mr. AMES. Aside from the question of the amount of information that this return might give and in connection with the standard form of return you believe, do you not, that if we could have a standard form of accounting throughout all the States it would be advantageous?

Mr. BULKELEY. You have got it already.

Mr. AMES. For one company? Each company has its standard form?

Mr. BULKELEY. No; you have a standard form of accounting in practically every State. And I want to say this, just at this stage, that all this talk and humbug, to my mind, about the expense of filing reports with 45 different States is perfect nonsense. We make a report in writing to the State of Connecticut, and I think only in one other State; and as you will observe, when that report is completed we send it to the printer and have the figures put in cold type and the reports to forty-odd States are made in a printed form.

Mr. AMES. I understand that; that is for your company.

Mr. BULKELEY. For every company, and they are made on what is known as a uniform blank, prepared and agreed upon by the insurance commissioners.

Mr. NEVIN. Does each State have a separate one of its own?

Mr. BULKELEY. The insurance commissioners of the various States in convention have agreed upon this uniform blank, and these reports are practically similar to those of every State. There may be one or two that are different. Massachusetts requires something a little different; I am not familiar with the details of that; and I think one other State also. But aside from that, the reports from all the States are uniform and are what is known as the uniform blank. I think I am right, Mr. Drake?

Mr. DRAKE. It is called the convention form.

Mr. BULKELEY. Yes, decided upon by the commissioners themselves, as the result of their experience.

Mr. DRAKE. That statement, Mr. Chairman, is revised every year at the end of the national convention, so that it is brought right down to date. Any innovations or improvements that are deemed expedient to embody in it are incorporated in it every year, and the companies in each State have the same form, with the exception of two States,

Massachusetts and New York, which have some few lines, very simple and few, that are different. They are passed upon by the convention.

Mr. BULKELEY. Understand, I do not say all these things can not be corrected in the Ames bill. I am only picking them up as I go along.

The next thing that I remark is that the idea in all the talks I have heard is to protect the companies and the policy holders against outrageous charges. As a general thing, I think, under the present code we have had extravagant charges for matters connected with the insurance business in the District of Columbia, except in the matter of taxation, as in all the States. I do not know whether you tax premiums or not.

Mr. DRAKE. Yes; the net premium receipts are taxed $1\frac{1}{2}$ per cent.

Mr. AMES. I hate to trouble you, but I am informed that the insurance commissioners, at their convention, usually adopt each summer this uniform blank which you exhibit. I do not understand that there is a gain and a loss exhibit in that uniform blank.

Mr. BULKELEY. I think you will find a difference of opinion among commissioners as to the propriety of the gain and loss exhibit. Some of the States do not require it and some do—

Mr. AMES. So that to get it from each State it would be necessary—

Mr. BULKELEY. Each State does not require it. I will admit that, but you get it in some way. Most of the States think it is entirely out of the question and improper, and most of the companies do.

Mr. AMES. Do you not personally think that the gain and loss exhibit ought to be made?

Mr. BULKELEY. I do not think it is of any value whatever. We show it to you in a general statement. When you go to work to examine what is called the gain and loss exhibit, you will find it does not amount to anything. You have got it already, practically.

Now, here on page 22 of the bill you will find some charges and fees. Of course, it is a small item. For foreign companies—those are the companies of other States—"For filing certified copy of charter or certificate of incorporation and by-laws, \$30." There it is, gentlemen. [Submitting specimen charter.] That is what we sent to the Department, and there is \$30 for handing it into the Department.

Mr. BIRDSALL. It ought to be about 30 cents. [Laughter.]

Mr. BULKELEY. "For filing statement of financial condition, \$20." That is this annual statement [indicating].

Mr. DE ARMOND. There is really more work connected with filing it than there is with the other, because it is larger?

Mr. BULKELEY. Certainly; there is no work about that. It is but a few pages of printing. It is the charter of the company. That is all.

Mr. AMES. Another interruption: You know the provisions of this bill make no provision for taxing the premiums of the companies?

Mr. BULKELEY. That is what we are trying to get rid of.

Mr. AMES. Do you not think an insurance department should be self-sustaining?

Mr. BULKELEY. Why?

Mr. AMES. Any department in the States should be.

Mr. BULKELEY. What department here is self-sustaining, except Members of Congress? [Laughter.]

Mr. DRAKE. The District insurance department here is not only self-sustaining, but we have turned into the Federal Treasury nearly \$300,000.

Mr. BULKELEY. That comes from the 1½ per cent tax?

Mr. DRAKE. Principally; yes, sir.

Mr. AMES. If you cut out the tax, should you cut out the \$20 and \$30?

Mr. BULKELEY. I am not kicking against it, but I am showing the inconsistency of the bill. When you try to get up a code—

Mr. DE ARMOND. You are pointing out places where somebody might kick?

Mr. BULKELEY. Yes. Why should people in California or New York pay for the support of a department of insurance in Washington?

Mr. AMES. I can answer that to your satisfaction. A code to be adopted by the several States ought of necessity to be a code that would provide the wherewithal for its own supervision, with foreign insurance companies coming into the States to do business.

Mr. BULKELEY. Let me tell you, we never charge a foreign insurance company in Connecticut a dollar in the way of taxation. There are, it is true, some minor things of this character, but we never charge them a dollar of taxation on their premiums except through the retaliatory law, and you have got it here; and the great New York companies, after they enacted a law taxing the companies in other States on their premiums, were compelled to pay in Connecticut under the retaliatory law five times as much as the Connecticut companies were compelled to pay in New York. I should say that all these retaliatory laws are wrong, and that is one of the things that I want to call your attention to in this bill, if I have time; and you want to strike out, in my judgment, such things, and make a law which you think is right for your own companies, and permitting other companies to do business within your own borders, and not because some State has made a bad law make it practically the law of your District as a retaliatory measure.

Mr. AMES. Is it not true that in the wisdom of the legislators in Massachusetts they collect above and beyond any necessity for insurance supervision of foreign companies some \$30,000 a year. New York some \$100,000, Ohio \$1,000,000 and some hundred thousand dollars? And yet you think as a practical proposition that these legislators should say that no revenues should be demanded to meet the expenses of the supervision of foreign companies?

Mr. BULKELEY. I just say that exactly, and I say that the cause of all the clamor that has been raised in this country for the last twenty-five years for Federal supervision of insurance was to get rid of the onerous taxation of States like Massachusetts and Connecticut. They are the worst ones in the business. [Laughter.]

Mr. AMES. Measured according to what standard?

Mr. BULKELEY. It is the standard of Massachusetts and Connecticut. That is high and equal to any standard in this country of men and measures generally, but they have a love of money, and when they see a big pile of it they know the way to go and get a big part of it. [Laughter.]

I am glad that the gentleman did not follow the example of Massachusetts and put a tax on premiums of these companies that are trying to do business to some extent for the benefit of their policy holders

scattered all over the country, and in that wisdom he has exceeded the wisdom of his local legislature.

Now, here is a charge which is common in Massachusetts for filing an amendment to articles of incorporation, no matter how small—one or two or three lines. You will find it on this same page:

For filing amendment to articles of incorporation, \$10; for filing annual statement, \$20; for abstracts or summaries of annual statements for publication, when prepared by commissioner, each \$5.

They are little things.

Mr. STERLING. It seems to me, Senator, if this rate of taxation could be uniform in all the States, there could not be any particular objection to it. Would there be?

Mr. BULKELEY. We have to have some method of raising money to conduct the governments of our several States. We have seen it in Connecticut. I can never say anything, and never do, against the taxation by other States of insurance companies on their premiums.

Mr. STERLING. The injustice arises from the inequality of the rates?

Mr. BULKELEY. It is not so large. It will run from 1½, if I remember correctly. I am taking up a great deal of your time.

Mr. PARKER. No, sir; not at all.

Mr. BULKELEY. It is rather a big report to find in these States, but you will find it there, and I will leave it with the committee if the committee would like to look at it. There are the requirements of the several States [indicating document]. It was prepared twenty-five years ago by Sheppard Homans, one of the noted actuaries of the time. I have brought down in red ink the same requirements of a year ago by the different States and for all different purposes; for preliminary documents, for attorneys, for valuations for annual statements, for general certificates, fines, licenses, taxes, discriminations, and miscellaneous.

Mr. BIRDSALL. In the final analysis, whatever the charge may be, by tax or otherwise, it falls upon the policy holder?

Mr. BULKELEY. Absolutely. We have no other source from which to pay. It is our claim and we have tried to present it, not to Congress, but in the various States, for which we are sometimes criticised—for trying to control or to lead, if you please, legislation upon these subjects which experience seems to warrant. We are more criticised for opposing the methods of taxation, or any taxation at all, than for probably any other thing that we do.

As I said, I would not tax. I am met in my own State and elsewhere with the idea that "it is property that you hold here in Connecticut that is taxed." We only hold it in other States a very little while. We gradually turn it back. Some of the States have a very equitable method of deducting from our premiums in the States the amounts we pay in those States for losses and endowments in a year and tax the balance.

Mr. NEVIN. How do you suggest that these expenses of the department should be paid?

Mr. BULKELEY. How do you run the Congress?

Mr. NEVIN. That is the Federal Government.

Mr. BULKELEY. We do not get half enough now. That is the trouble; that is, up in Connecticut. They do not tax the people upon what they have got.

Mr. PARKER. How long is that statement in that book? Could you prepare a little extract from it to go into the record, showing those taxes?

Mr. BULKELEY. It is 2 pages here. I can leave the book with you.

Mr. PARKER. No; we do not care for it.

Mr. BULKELEY. Now, here is a provision in regard to classes of business permitted. It affects my own State probably more than anywhere else. We have had the same question arise everywhere.

Now, there are two companies, one of which I have the honor to be president, and of the other Mr. Messenger, who spoke to you the other day, is the actuary. We are by our charter permitted to transact a life and personal accident, health, and personal liability business, not affecting properties; and those two companies in those classes of business transact 40 per cent of the entire business of the country (excluding life), in the personal accident, health, and personal liability. These two companies transact 40 per cent of the premium income of the country, and under the provisions of this act we would be debarred from doing business in the District of Columbia.

Now, we have had that question arise in various States on the ground, I presume, that my friend has followed that a company could not come into a State and do classes of business which a domestic company was not permitted to do in that State. We went through long litigation in Illinois because that was simply a ruling of the commissioner in his interpretation of the law, and also in Ohio; and the decisions of the commissioners were practically overruled, and we were both permitted to continue in the States and do these three classes of business, although a domestic company was not permitted to.

Mr. PARKER. Senator, ought there to be any limitations in the law preventing a life company from doing a property or accident insurance business?

Mr. BULKELEY. Yes; I think that is a fair discrimination. Our business is connected only with the lives and injuries of persons and their health, and I do not think we should be given permission to insure property. I would not ask that anywhere, although I think you will find that condition in Great Britain. The great fire companies of the world also transact a life business, and are permitted to. But it has never been thought wise in this country, and I should not advocate for myself any such permission.

Now, it is very inconvenient for the concerns and policy holders—this simple provision on page 26:

Contracts of insurance against the different classes of loss which are permitted to be made by a single company shall be contained in separate and distinct policies.

Mr. AMES. An amendment submitted is to strike that out.

Mr. BULKELEY. I have not had time to go through the amendments.

Mr. STERLING. We would like to know your objection to it, Senator, because these amendments have not been passed upon or considered.

Mr. BULKELEY. I can not conceive any possible objection to including in a single policy all the risks to which I have referred, that I would write in my company; that is, life, personal accident, and health, for instance, in a single policy, instead of lumbering up with three policies.

Mr. PARKER. Before you go any further, Senator, I notice that this allows Nos. 1 and 4 to go together; that is to say, to insure the lives

or health of persons under the first, and under the fourth to guarantee the fidelity of persons.

Mr. BULKELEY. I did not suppose that they had got it that way.

Mr. PARKER. No; the first and fifth, to insure against bodily injury, and then the fourth, sixth, seventh, and eighth, which are fidelity insurances. The injury or death of some one, caused by the explosion of steam boilers and insurance of plate glass are allowed to go together, but there is nothing to put fire and marine insurance together.

Mr. BULKELEY. They are generally separate in this country, and have always been, except for inland navigation. Our fire insurance companies, or many of them, in Connecticut, write what they call inland navigation policies, but the great marine insurance companies of the world are absolutely separate, both in this country and in England. They are absolutely separated from the fire underwriting.

The distinction, Mr. Chairman, that I would draw is practically this, that a class of risks that covered the life or the health or the injury of an individual can properly be classed in one form of insurance. That is what we commonly know as employers' liability insurance—health, and personal accident, and life. They are all connected with the individual and with an individual injury, whereas many of these others embrace the insurance of properties. That is the distinction that I would largely draw.

Mr. AMES. While you are on page 26, from lines 6 to 10, do you think those limitations or requirements are too severe?

Mr. BULKELEY. I do not think the capital is any two large; no. I think that is all right. I am for putting the companies of the country on the highest standard of security for the policy holders that can possibly be done, anywhere and everywhere.

Mr. PARKER. One seems to be left out; the fourth is left out of any capitalization, and I would like to ask was that intentional—fidelity companies and burglary companies?

Mr. AMES. I do not think it was.

Mr. DRAKE. May I answer that question, Mr. Chairman?

Mr. PARKER. Yes; certainly.

Mr. DRAKE. I think that was eliminated because of the law enacted in 1904 by the Federal Government requiring surety and fidelity companies to qualify before the Department of Justice and make returns to the Comptroller of the Currency. I think that omission was made for no other reason, and I have recommended in my report to the Commissioners that they be brought under the supervision of the Department in the District of Columbia.

Mr. BULKELEY. If the bill were adopted the classes of business could be created according to my views on page 26, line 16, by inserting the first, fifth, and sixth classes there, so that what is known as the employers' liability, in which the Aetna and Travelers' are engaged and which only affects the person and not the property. That is the distinction I draw.

Now, on page 31—if I am wearying the committee I will stop at any time you suggest—under the heading "Companies issuing participating policies not to do a nonparticipating business"—

Mr. AMES. The amendment offered on that was to strike out on line 9 the words "and no," and on line 10 the entire line, and on line 11 the words "to issue any participating policies," and on line 14 to

strike out the words "as provided in this chapter." Strike all that out and at the end of that section insert in lieu thereof these words:

This section shall not apply to annuities or to paid-up or temporary and pure endowment insurance, issued or granted in exchange for capital or surrendered policies.

Mr. BULKELEY. That does not improve it any, from my standpoint. Now, if anybody can tell me why any insurance companies if they choose, mutual or stock, could not give its policy holders the benefit of the lowest-priced insurance that can be furnished, I would like to have him tell me. I happen to be the president of a stock company, and we do a considerable stock business, but we have a mutual department within our company much larger than the stock, in which the assets are absolutely kept in separate form. The dividends are made for that department. They have the benefit of all the earnings of that department, and are returned to them in the shape of dividends on their policies.

Now, in our stock department we furnish insurance at rates practically 20 per cent lower, so that an insurer on the stock plan of insurance gets the benefit in advance of an annual dividend, if he desires it, and if anybody can tell me why a mutual company should not issue as they propose to let them under this amendment, under certain conditions, why they should not at the inception of a policy issue a low-premium policy if their policy holders or applicants desire it, I would be glad to know why. I have never yet been able in twenty-five or thirty years' experience to see why they should not. But under that provision I can not come into the District of Columbia and do business, and I have got a company with \$80,000,000 odd of assets, and the Travelers can not come in here. They do business on both plans, with a guaranteed annual dividend, not a participation in the profits, but a guaranteed annual dividend on their participating policies and their low-rate stock scheme.

Mr. AMES. Is not that one of the especially important provisions of the Armstrong code, the new code in New York?

Mr. BULKELEY. I think they have done as foolish things as any committee or any legislature ever did, and if you will only give them time to get back to Albany they will repeal them, or some of them, right after they get there. [Laughter.]

A BYSTANDER. That is right.

Mr. BULKELEY. I do not know on what theory, except on the theory of Mr. Dawson, that they ever indulged in any legislation of that character. They will say to you and to me that you policy holders are not on an equal footing; that in the mutual company they should all be on an equal footing, and that one man should pay the same as another man. They will all be on an equal footing in a reasonable number of years, and the stock policy holder will only have an advantage of a lower rate. Mutual policy holders will have an advantage of a lower cost to the company of the stock insurance, because the loadings of the stock policy will never warrant much more than the half for the expense for that character of business that the mutual rates will allow.

Mr. AMES. You say in a reasonable length of time both classes of policy holders will be on the same footing?

Mr. BULKELEY. Yes.

Mr. AMES. Why should they not be on the same footing from the beginning?

Mr. BULKELEY. I claim that they are from the inception, putting the apparent differences in the premiums together. The mutual in the course of seven, eight, or nine years under old rates of interest, with an annual dividend, would get down to an annual premium of a stock policy. The mutual had the benefit of a lower rate of expense, and also had the benefit of the gains in mortality of the stock policy holders.

All this business is a law of averages, gentlemen, and nothing else. You all know—it is as old as the hills—that there is nothing so uncertain as the life of one man, and there is nothing so certain as the average life of a thousand men; and all these tables, whether they are stock or participating, are based upon a uniform rate of mortality, and the net premium which is required to make up the reserve and to make the contribution of the policy holder to the losses, is just the same under a mutual policy as it is under a stock policy.

Mr. STERLING. Would you say that is true of all the different kinds of policies—life policies, ten-year payment policies, and all kinds of policies?

Mr. BULKELEY. Under any form. The net rate is just the same, whether mutual or stock; and the only difference in the premiums is the way they are loaded. In a stock rate we simply load them from 10 to 25, or possibly to 30 per cent—none higher than 30—and under the mutual policy we load them 50, 60, or 70 per cent. Now, that is the difference. I have never been able to conceive any reason why you should not permit a policy holder to secure the form of policy that he wanted.

Mr. STERLING. In practical operation, Senator, does the policy holder get back all of this loading that he is entitled to?

Mr. BULKELEY. That is a mere question of administration—of what is spent in the conduct of the business. And I want to say in that connection, Mr. Chairman and gentlemen of the committee, that in the development of this great insurance business which has grown up in the United States of America in the last sixty years practically, or sixty-five years, its introduction, its slow growth for twenty years, and its later upbuilding has all been effected at a relatively low cost. All its great growth has been since 1860, and prior to 1860, I venture to say, there was but one company in this country that wrote 1,000 policies a year, and the assets of all of them put together would not fill a basket in the great coffers of one of our great life-insurance companies of to-day; and that business has been built up to the magnificent structure which it is to-day in its beneficent work at as small an expense—as small an average expense to all the companies combined—notwithstanding these great demonstrations that we have had in New York of so-called extravagance, as any other contemporary business. I am not here to criticise the New York companies for their extravagance. I do not know anything about them except what I read in the press. But altogether they have been built up at even a less average expense to the policy holders than any business that has been built up in this country within the same time. It has been built up at an average expense of less than one-half the cost that it has taken to build up your magnificent structures of fire insurance of which we are all so proud to-day; and this charge—I care not how broad it is made—I would like to reply to, and challenge anybody—an expert actuary, if you will—to prove that I am wrong in that statement.

I understand that on page 33 it is proposed by an amendment to make a change, but to show how easily even the most magnificent mind can slip into mistakes in regard to investments I will just read it. I understand it has been suggested to strike it out in these proposed amendments. But here, gentlemen, is a bill purporting to be the wisdom, the combined wisdom of governors of States, actuaries of companies, insurance commissioners assembled in Chicago, and their work commended by the President, which contains a clause like this [reads]:

Ninth. If the capital can not be conveniently invested in the modes hereinbefore prescribed, not exceeding one-third part thereof may be invested in bonds or other personal securities, payable and to be paid at a time not exceeding one year, with at least two sureties.

That is, an indorsed note of two sureties. That would permit each of the great companies of New York—the three great ones—to invest \$400,000,000 in indorsed paper.

Mr. AMES. I think, if you will pardon an interruption, you will find that the provisions that the commissioners at Chicago approved put no limitation whatever upon the investment of the assets of a company other than its capital stock, so that the President should not be accused of indorsing that.

Mr. BULKELEY. Oh, no; I am not accusing the President. He approved the action of the convention.

Mr. AMES. You believe there should be a limitation put on the investments of the assets of a company?

Mr. BULKELEY. I do not think there is a life insurance company in the country that would take one of these assets for a moment.

Mr. AMES. What they approved of was that there should be a limitation of those assets.

Mr. BULKELEY. What is the capital of a mutual life insurance company? They have not got any.

Mr. AMES. Then this does not refer to your mutual companies.

Mr. BULKELEY. Of course, all the courts I know about have decided that the capital of a company is its assets.

Now, go on and see:

If the principal and sureties are all citizens of the United States and residents of the State in which the loan is made, provided that the total liabilities to such corporation of a person or of any partnership, company, or corporation for money borrowed upon personal security, including in the liabilities of a partnership or company not incorporated the liabilities of the several members thereof, shall not exceed five per centum of such capital.

Now, I question the wisdom by which the permission is given to invest in personal notes, even with good indorsers, to a life insurance company or any other company, or fire. I would put that all in the pot.

Mr. AMES. Is not that in your Illinois and Massachusetts laws to-day?

Mr. BULKELEY. I do not know what the law is, but if the *Ætna* Life Insurance Company takes up to Mr. Cutting in their report \$500,000 or \$1,000,000 or \$10,000,000, Mr. Cutting will write us back, and any other commissioner will, and if he does not he ought to be turned out of office. He will write us back that they are not a proper asset for a life insurance company to hold.

Mr. BIRDSALL. That seems to be a provision for unprofitable financing.

Mr. BULKELEY. I understand that when the author of this bill sat down to look it over he had stricken it out, but I speak of it only to show that what comes to us purporting to be a well thought-out model code does not embrace everything that is perfection, and I am not surprised at all that it does not. We men who have been in the business—

Mr. AMES. I am surprised that it contains as much as it does. [Laughter.]

Mr. BULKELEY. We gentlemen in the business have learned one thing, and that is that there is in our business something new to be learned every day; and the officers of these great corporations—I think there is hardly one on this committee or one within the hearing of my voice that fully appreciates the immensity of these corporations and the influence which they are bound to wield in the interests, financial interests particularly, of this country within the next twenty years. They are bound to control, gentlemen, as they do almost now, through their holdings of the securities, the great interests of the country, concerning which we are having so much trouble here to legislate in Congress to-day, and they through their holdings will control within the next twenty-five years, and be the great financial power of this country, through their managers and through their holdings of these securities in which they are bound to make their investments.

Mr. DE ARMOND. Would it not be a tolerably good scheme, in view of that, to try to legislate in some way to lessen this power?

Mr. BULKELEY. I do not know. I have talked all my life with the fear of this in view, and the conditions that we have in New York to-day never arose from any mismanagement or lack of good administration within the companies themselves, but they arose, in my judgment, simply from a jealousy on the part of the great monied interests of the country seeking to control those institutions, and in my humble opinion, gentlemen, in the hasty legislation which they have adopted New York has jumped out of the frying pan, to use a homely expression, into the fire. Instead of having a divided control of those great interests, as we have always had, they have concentrated that great financial power, that controls its banks and its trust companies and its life-insurance companies with their enormous interests, practically in the hands of one man.

Mr. DE ARMOND. Who is that? He would be a good man to know, I should think; he might be. Do you not think it would be better for the country in general to have the business done by a large number of comparatively small companies than by a comparatively small number of large companies?

Mr. BULEKLEY. I do not think you can ever furnish insurance in this country so cheaply as it can be furnished to-day by the thirty or forty level premium life insurance companies that are doing business here.

Mr. DE ARMOND. Then you believe a few large companies would be better for the general public than a considerable number of smaller ones?

Mr. BULKELEY. Yes, as a matter of economy. It is almost impossible, under the regulations of States, of various character, to organize and to set in motion the wheels of a new life insurance company at any reasonable expense that the policy holder ought to be put to.

Mr. DE ARMOND. Should not legislation, especially a model code, go to the correction of that abuse? You do not regard it as an abuse?

Mr. BULKELEY. No.

Mr. DE ARMOND. Do you not think it an abuse that people having abundant means and ready to start a new insurance company are restrained and prevented from so doing by the existing condition of things?

Mr. BULKELEY. No; you can not start. I do not know any conditions in the law that prevent it, but—

Mr. DE ARMOND. I misunderstood you, then.

Mr. BULKELEY. There is nothing to prevent any aggregation of men that choose to go into the life insurance business to-day from organizing a company in the State of New York under general laws. In Connecticut they can organize under special charters, and they are all on an equal footing.

Mr. DE ARMOND. I misunderstood you, perhaps. I understood you to say that the condition of things is such that it could not be done.

Mr. BULKELEY. I do not say they can not, but they will not.

Mr. DE ARMOND. What is the reason they will not?

Mr. BULKELEY. Capital is not seeking for that class of investment, and individuals are not seeking for that class of trouble. [Laughter.]

Mr. DE ARMOND. Stated in another way it gets down to this, does it not, that a comparatively few enormous insurance companies have such a monopoly of business and such a monopoly of the means of controlling business that other people are deterred from engaging in that particular business?

Mr. BULKELEY. I do not think it is that.

Mr. DE ARMOND. Then what is it, Senator?

Mr. BULKELEY. It is difficult to go into this business and acquire the confidence of the public. Would you go into a new company yourself, I ask you, with a hundred thousand dollars of assets and insure your life in it, when you can go into one of \$150,000,000 assets—not necessarily one of the biggest of the companies, but with a company long established that has long experience and had a volume of business on their books that gave them a fair average rate of mortality—would you go into a small company like that in preference to one of considerable size already established?

Mr. DE ARMOND. I do not know what I would do about that. I do not know much about it.

Mr. BULKELEY. What I am trying to illustrate is how it would strike you if I were an agent representing a small company with \$100,000 of assets and 500 policy holders, and another agent comes along representing a company of \$150,000,000.

Mr. DE ARMOND. I would not suppose that necessarily the hundred and fifty million dollar one would be a better company to insure in than the other. There are a great many considerations. But \$100,000 is probably a small capital to start a business of that kind with?

Mr. BULKELEY. Any company can start in New York with \$100,000. That is the reason why I mentioned that sum.

Mr. DE ARMOND. I know, but with an abundance of capital in this country, if legislative conditions were such that these enormous companies did not have the advantage, what is to prevent your starting other good-sized companies?

Mr. BULKELEY. One was started in Washington with a million under the administration of that great financier, Jay Cooke. It did

not exactly bust, but it was relocated in Chicago, I believe, and it is now being rejuvenated. It is difficult—

Mr. DE ARMOND. I know it is difficult, but when you are working on the theory of model codes, ought there not to be something put into the code to open up avenues for other people to engage in the insurance business and prevent the monopoly of the comparatively few in it?

Mr. BULKELEY. I would like to cite an instance, if you will pardon me. A few years ago we had the three great New York companies come up to Connecticut and apply for the passage of a law forbidding any life insurance company to have insurance in force to the extent of over \$1,000,000,000, and the representative of the Connecticut companies referred them to their own legislature if they wanted such legislation, stating that we were in no danger of ever having \$1,000,000,000 insurance. There is hardly one of those three companies but what to-day has got nearly twice that amount. I do not know of any way that you can stop it unless you prevent their doing any new business at all when they reach a certain amount of insurance, except to keep up to that amount, and then you can stop any company to-day.

Mr. DE ARMOND. Could there not be a limitation on the amount of business done in order to prevent the concentration in a comparatively few companies of all the business?

Mr. BULKELEY. Three large companies, of course, have half of those assets, and the rest of us are divided up with seventy-five or one hundred and fifty or two hundred million dollars. But you should stop us to-day from getting new business, we will go on for the next ten or fifteen years, and at the end of that time we will have doubled the assets we have now, and then we will begin to go down hill.

Mr. PARKER. Senator, you have a considerable number of amendments to this bill still to cover, and it is now nearly half past 1 o'clock. Would it not be better to suspend now and go on again this afternoon? I want you to continue, but I suggest perhaps it would be better to continue this afternoon.

Mr. BULKELEY. I have talked too long now, perhaps, and if you wish to adjourn now, all right.

Mr. NEVIN. I suggest that the committee take a recess now until half past 2 o'clock this afternoon.

Mr. BULKELEY. Pardon me, I did not want to take all your time.

(Thereupon, at 1.15 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS.

(The committee resumed its session at the expiration of the recess, Hon. Richard W. Parker in the chair.)

STATEMENT OF HON. M. G. BULKELEY—Continued.

Mr. BULKELEY. The one or two things that were left when I closed my talk this morning you will find on page 42, under the "Annual distribution of dividends." I probably can not talk as intelligently as an actuary on that subject, but my experience would be in this line: During the last fifteen or twenty years, by the change of methods of business of the life insurance companies and their concessions to their policy holders in various ways, in the granting of extraordinary privileges

and the decrease in the general rates of interest, an annual distribution of dividends has been rendered practically unnecessary, for the reason that the sources of those dividends in past years have been practically given to the policy holders in the concessions in their policies. So that to-day the excess rate of interest above that required to maintain and compound our reserve is practically the only source of income from which to declare dividends unless it is deemed safe and wise to indulge in a distribution of mortality gains, which has always been a very grave question with conservative life insurance men, as to its propriety.

It is admitted by so distinguished a gentleman as the actuary of the Armstrong committee that he would distribute practically those mortality gains in the way of increasing the provision for the expense of the company during the first four or five years, and with the idea that that would level up the standing of the insured, and that those mortality gains, spread over the expense of the early days of the business, would practically put the newer insured upon a level with the older ones.

Every policy holder in a strictly mutual company becomes an old policy holder after one year. It may be determined to be one, two, three, four, or five years, but gradually they all assimilate to the same level. The old policy holder of to-day was a new policy holder a few years ago, and the same expense was indulged in to bring him into the fold that is spent on the new policy holder to-day, and it is the average of expense over the whole period of the existence of our policies that puts the policy holder on a common level, no matter what the initial expense may be.

I want to call the attention of the committee to the fact that all this great volume of insurance which the level premium life insurance companies of the country are carrying to-day, practically we have got to replace within a less period than ten years. The average life of our policies of all classes in the level premium life insurance companies to-day is less than ten years, expiring for various reasons—by death and from one cause or another—so that, not the individual policy, of course, I do not mean, but the average of our business, is something less than ten years for the existence of a policy in its original form. There is no opposition, so far as I know, to annual dividends to anybody that wants them, if an actuary can furnish us a reasonable basis upon which to found such a distribution.

Now, we are required at the end of a year, in this loss and gain exhibit which we have spoken of before, to show the sources of profit during the year, and among those sources of profit which will always be shown and never realized unless we dispose of our security—if we are fortunate we generally are able to show quite a large gain in the market value of our securities over cost—is it proposed in this annual dividend scheme that we shall divide every year that theoretical increase in our assets which we might have if we disposed of them, and which we are obliged to show, and as to which we may show large gains and frequently do?

Mr. AMES. I can answer your question. It would require a division of everything above your contingency reserve record. Your contingency reserve would increase—

Mr. BULKELEY. That is another matter which we will talk about later—the contingency reserve. I should have to ask somebody to

tell me what percentage of reserve a company of fifty million to one hundred million or three or four hundred millions of dollars should keep for the protection of its assets against possible fluctuations in market value. I have seen the time, Mr. Chairman, and we have been criticised, some of us insurance men, for what we did in those days, when if we had realized the expectations which certain contingencies that were liable to come from them produced in this country, that the probable decrease in the market value of the securities held by three or four of the large insurance companies of the country within two months would have rendered every one of those companies with large contingency reserves, if you please to call them such, for just such occasions, bankrupt under the theories of the law. It would have absorbed in the great New York insurance companies every dollar and more of their surplus if what was said was believed.

That was one reason, Mr. Chairman and gentlemen of the committee, why, for the protection of their assets, for the protection of the policy holders—I have never had an opportunity to say this before in a public place, and I say it without fear—that it was a solemn duty which we owed in the great emergency which we thought we saw, to contribute in some measure to avert the calamity with which we were threatened; and many of our companies did, Mr. Chairman, contribute in that political campaign; and in my judgment they contributed properly, and if they had failed to do it they would have failed to do a duty which they owed to the corporation of which they had charge, and a duty which they owed to their policy holders in the protection of the assets which they were holding, with which to meet their contracts as they matured.

Mr. DE ARMOND. Would you mind stating what campaign that was?

Mr. BULKELEY. That was what we called the Bryan campaign.

Mr. NEVIN. Of 1896?

Mr. BULKELEY. Yes, sir.

Mr. DE ARMOND. Then you believe that an insurance company, having its policy holders in all the different parts of the country, gathering its funds from all over the country, was authorized, of its own motion, to contribute the money of the policy holders to one party in a political campaign, happening to be the one to which you belong?

Mr. BULKELEY. I do not care which one they belonged to.

Mr. DE ARMOND. I say you consider that as a proper thing?

Mr. BULKELEY. I believe that the protection of those assets, even in a political campaign, was just as much the duty of an officer of the company as it was to try a lawsuit and to employ a lawyer to defend the company against some unjust claim.

Mr. DE ARMOND. Then you think even with a company the majority of whose policy holders were supporting Bryan, that it was proper and right for the officers themselves, without warrant of law or any other authority except their own will in the matter, to contribute to his defeat?

Mr. BULKELEY. If it was against the law I should agree with you. I do not know of any law—

Mr. DE ARMOND. I say without authority of law.

Mr. BULKELEY. I think they have every authority of law.

Mr. DE ARMOND. Can you cite us the authority of law that allows a man handling a trust fund to contribute to a political campaign to carry his party through and defeat the other party?

Mr. BULKELEY. To begin with, sir, I should not consider that we are holding any trust funds.

Mr. DE ARMOND. They are not your funds, are they?

Mr. BULKELEY. They are the funds of the corporation.

Mr. DE ARMOND. Then, you do not look upon——

Mr. BULKELEY. You are under no obligation as a policy holder to the corporation. You simply hold a contract.

Mr. DE ARMOND. I am not asking about that, but I am asking you about those who manage the company. I am not saying the policy holders are trustees for the company.

Mr. BULKELEY. Who are they trustees for?

Mr. DE ARMOND. Is not the company the trustee for the policy holders?

Mr. BULKELEY. Not at all.

Mr. DE ARMOND. It is not?

Mr. BULKELEY. Not at all.

Mr. DE ARMOND. What is the relation? What term would you use in defining the relation or expressing the relation of the company to the policy holder?

Mr. BULKELEY. The policy holder is the purchaser of a contract.

Mr. DE ARMOND. Exactly.

Mr. BULKELEY. And that is all. It is my duty, as the officer at head of any corporation that I have the honor to manage, or anybody else, to protect its funds, in order to enable it to meet its contracts.

Mr. DE ARMOND. I understand you to justify the use by corporations of money in that campaign of 1896 to elect one candidate and to defeat the other?

Mr. BULKELEY. I have not mentioned any candidates at all. I say that it was right to protect their assets in that campaign, as much as it is right for them to protect them in a lawsuit in a court.

Mr. DE ARMOND. By trying to elect one candidate and defeat another?

Mr. BULKELEY. If the other one——

Mr. DE ARMOND. What is the use putting in any "if" to it?

Mr. BULKELEY. I am not.

Mr. DE ARMOND. You are putting an "if" in. I will ask you this question: Do you take the position that it was justifiable or right or honest or decent for the head of an insurance company or any other great corporation to use the money of that corporation in the campaign of 1896, or in any other campaign, to elect the candidate of one party and to defeat the candidate of another?

Mr. BULKELEY. I am talking about the campaign of 1896.

Mr. DE ARMOND. Exactly.

Mr. BULKELEY. I am saying here that I believe that every custodian of great funds had a right to make its contribution in that campaign, as some of them have testified that they did, in New York City, for the maintenance of a principle which they thought was necessary to protect the assets in their charge and to enable them to meet at maturity the contracts with their policy holders.

Mr. DE ARMOND. Will you not answer my question?

Mr. BULKELEY. I think I have fully answered it.

(By request of Mr. De Armond the stenographer read the question referred to, as follows:)

Do you take the position that it was justifiable or right or honest or decent for the head of an insurance company or any other great corporation to use the money of that corporation in the campaign of 1896, or in any other campaign, to elect the candidate of one party and to defeat the candidate of another?

Mr. DE ARMOND. Do you say yes or no to it?

Mr. BULKELEY. I do not say yes or no.

Mr. DE ARMOND. You started out on this business, Senator, and I would really like to know, even if you are a United States Senator, and president of an insurance company—

Mr. BULKELEY. I stated to you, sir, and to this committee, at the outset, that I wished to be treated here as a citizen of the State of Connecticut and not as a United States Senator.

Mr. DE ARMOND. Very well; you are the president of an insurance company and a citizen of Connecticut.

Mr. BULKELEY. Yes, sir.

Mr. DE ARMOND. And you have chosen here voluntarily to give your judgment, totally aside from any matter that is in discussion before the committee, of the propriety of the proceedings of those in charge of insurance companies in 1896 in contributing money belonging to those companies to elect one candidate of a political party and defeat another. You have chosen to do that yourself. Nobody asked you to do it; you volunteered it. I want to get at—putting aside the fact that you are a United States Senator, and merely asking you as a citizen of Connecticut—I would like to get at the standard of morals, political and business, that controls and dominates the company of which you are the head, if that is your idea of the way to handle those funds.

Mr. BULKELEY. The question of morals I do not regard as being involved in the matter.

Mr. DE ARMOND. Evidently.

Mr. BULKELEY. I introduced this subject in connection with the contingency reserves which are provided for, and to explain the situation which, if the gentlemen believed what they said and what they thought, would have rendered bankrupt every one of the companies, in the eye of the law. I maintain that still.

Mr. DE ARMOND. About half of the people in the country apparently did not believe that. Almost half.

Mr. BULKELEY. A majority seemed to.

Mr. DE ARMOND. But a very small one, was it not?

Mr. BULKELEY. Sufficient to give control of the Government.

Mr. DE ARMOND. I understand so. And you have explained largely how it got control of the Government, too, for which I am very much obliged to you.

Mr. BULKELEY. If you will permit me, I have found almost always—if you want to lead me into a political discussion—

Mr. DE ARMOND. I do not want to lead you into it. You led yourself into it, and I want to travel with you a little on it.

Mr. BULKELEY (continuing). That one party or the other, when they happened to have large contributions to their political campaigns, have frequently obtained control of the Government at Washington; and if I have read correctly, within a few months in the publications, the party in opposition to the one to which I belong has only controlled the Government in Washington when their contributions have exceeded those of the other party—more than double.

Mr. DE ARMOND. Well, now, you are in a position to know; let us get at that. If it is not regarded as a question of going into secrets, and is not embarrassing, I would like to know whether the company of which you are the head contributed to the political campaign in 1896?

Mr. BULKELEY. They did.

Mr. DE ARMOND. I would be glad to know whether that company contributed on the occasion when, as you say, the Democrats obtained control of the country?

Mr. BULKELEY. I do not think they did.

Mr. DE ARMOND. What reason have you, then, from your knowledge and experience in the matter, to say that the Democrats obtained control of the country by the means of corruption and purchase, which you have described?

Mr. BULKELEY. I did not say anything like that.

Mr. DE ARMOND. No; you did not use those words, but I am using them—the means of purchase and corruption by which the other party obtained control in the way you have suggested?

Mr. BULKELEY. The information which I possess was kindly communicated to the country and to the newspapers by a distinguished member of the Democratic party in the Senate, and inserted in the Congressional Record at this session of Congress, where I got my information.

Mr. DE ARMOND. Well, then, I will waive the question as to whether it is true or not; I do not know; I am not acquainted with politics of that kind, but if it is true, you justify it?

Mr. BULKELEY. I was making no criticism on the Democratic party.

Mr. DE ARMOND. If it is true, you justify it?

Mr. BULKELEY. I am not making any criticism on the Democratic party.

Mr. DE ARMOND. If the Democrats did that you justify it?

Mr. BULKELEY. I was just alluding to the fact—

Mr. DE ARMOND. I think it is not a fact. You had better call it a rumor.

Mr. BULKELEY. I do not say they bought it. Because you spend money in an election you do not necessarily buy it, my dear sir.

Mr. DE ARMOND. Do you think the election of 1896 was not bought?

Mr. BULKELEY. I do not think it was.

Mr. DE ARMOND. Do you know anything about the amount of money that was used in the effort to buy it?

Mr. BULKELEY. I do not know whether there was any effort made.

Mr. DE ARMOND. You do not?

Mr. BULKELEY. No, sir.

Mr. DE ARMOND. What went with that money that you contributed?

Mr. BULKELEY. I can not tell you, sir. I do not know. I presume it went for legitimate expenses. What those are you know as well as I do. [Laughter.]

Mr. DE ARMOND. May I ask you another question as to the amount of that contribution, if you recollect?

Mr. BULKELEY. What?

Mr. DE ARMOND. The contribution of your company.

Mr. BULKELEY. Certainly. I reported it to the Armstrong committee. Five thousand dollars.

Mr. DE ARMOND. Did you not feel that you were rather small and stingy in comparison with some others?

Mr. BULKELEY. Yes; I thought I should have given \$25,000.

Mr. DE ARMOND. Explain why you did not do it, if you will.

Mr. BULKELEY. That was all I felt like giving just at that time. If I had thought that it had been necessary, as my proportion, to give \$25,000, I should have done so.

Mr. DE ARMOND. Of somebody else's money?

Mr. BULKELEY. No, sir; not of anybody else's money.

Mr. DE ARMOND. It was not your money?

Mr. BULKELEY. It was money in my charge to protect the assets with which I was to pay the claims of that company.

Mr. DE ARMOND. How much money did you give individually in that campaign? Did you give any?

Mr. BULKELEY. I am inclined to think I did. I generally contribute liberally.

Mr. DE ARMOND. You contributed more liberally when you contributed out of the money belonging to the policy holders of your company, did you not?

Mr. BULKELEY. No, sir; I will venture to say that it was a flea-bite.

Mr. DE ARMOND. And the main feeling of regret that you have now is that you did not give more?

Mr. BULKELEY. No; I have no feeling of regret about it.

Mr. DE ARMOND. You have a kind of a feeling of shame, in view of the revelations that have been made recently?

Mr. BULKELEY. I have no feeling of regret, because what I did was a part of the contributions to the great and good results which were achieved in that campaign, according to my theory.

Mr. DE ARMOND. Yes. Now, as the representative of an insurance company and not as a member of the United States Senate, although you are a member of the United States Senate, and as a member of a great insurance company, and its head before this committee and before the country, you justify the giving by the insurance companies of money which does not belong to them for political purposes and political campaigns?

Mr. BULKELEY. Yes. I would not justify giving any money that does not belong to them, but every dollar they have given belonged to them. My dear sir, I have just made a contribution by my company for the relief of the sufferers of San Francisco.

Mr. DE ARMOND. You put these two acts upon about the same footing?

Mr. BULKELEY. Why not? Why should I give to a charity if I can not give for the protection of the means that enable me to give to a charity? I gave to San Francisco for the same reason that I gave in the political campaign—for the protection of my policy holders.

Mr. DE ARMOND. How do you protect your policy holders in San Francisco by giving? Do you give to your policy holders?

Mr. BULKELEY. I do not give to them direct, to each individual; no, sir. I contribute to a general fund, for the general relief of the people of that city, among which are a large class of my policy holders that will participate in the relief; and when I shall save them from suffering, and from disease and death, or contribute to that, I contribute to the good of every policy holder that is associated with them.

Mr. DE ARMOND. May I ask what the contribution of your company was to the San Francisco sufferers?

Mr. BULKELEY. Five thousand dollars.

Mr. DE ARMOND. Exactly the same to the people in that city, that was practically wiped off the map, that was given to carry the election of 1896?

Mr. BULKELEY. The business community was wiped out, and two-thirds of the residence portion of the city is still standing there.

Mr. DE ARMOND. You contributed equal amounts to the two calamities?

Mr. BULKELEY. I did.

Mr. DE ARMOND. The one that occurred and the other that was threatened.

Mr. BULKELEY. And I would contribute \$5,000 more, if I thought they needed it. I would give when I think it is proper, even from my company.

Mr. DE ARMOND. I am very glad, for one, to have your estimate of this business.

Mr. BULKELEY. I am very glad to furnish you the information, sir.

Mr. DE ARMOND. There are a great many people who have believed that, but as far as I know you are the first one that has ever confirmed them in the belief by direct authority about it. Most people have—I do not know what it is; I will not characterize it—but some sort of a feeling that restrains them from admitting that kind of evil doing, and especially restrains them from glorying in it.

Mr. BULKELEY. We do not mind how some people characterize it.

Mr. DE ARMOND. I know that.

Mr. BULKELEY. We do not mind that. All we have to do is to do our duty, and we do it.

Mr. DE ARMOND. And you call that duty?

Mr. BULKELEY. I do.

Mr. DE ARMOND. That is all right. That puts a new duty into the general category.

Mr. BULKELEY. All right. You can put me in any category you please.

I trust the balance of the committee will excuse me for the little side talk we have had on these other questions.

Mr. DE ARMOND. I hope they will be gratified, as I am, to get this new philosophy of the true policy of life insurance.

Mr. BULKELEY. I am not afraid, my dear sir, to go to my policy holders or to go to a commission or to go anywhere, even before a committee of this distinguished body, and to tell what we have done with the money that we have had.

Mr. DE ARMOND. There are people who get so powerful in a financial way that they have no need to be afraid to go where people of smaller means would not dare go, because——

Mr. BULKELEY. Where we have one dollar, or a hundred thousand, you gentlemen down here have hundreds of thousands or millions; and if you disburse it, my dear sir, as honestly as the money of the insurance companies generally is disbursed you will be entitled to the thanks of your constituents and the country.

Mr. DE ARMOND. From what you have said in giving us this information I am satisfied that we will merit those thanks, because we certainly can not do worse.

Mr. BULKELEY. I am pleased with the high opinion that you have. It only verifies the judgment I had of the manner in which you gentlemen are accustomed to perform your duties. Now, Mr. Chairman,

the matter of annual dividends is a matter for the consideration of actuaries rather than for the business end of an insurance company. We believe, however, for the policy holders that a deferred—not too long—but a deferred period will produce more satisfactory results and make a wiser distribution of the earnings of a life insurance company than the short periods of from year to year. In my own company we some years ago adopted a five-year period for the distribution of dividends, and until recently in all our transactions have lived up to that idea, believing it to be the best. We have no objection whatever to an annual distribution, and we think that can be best brought about by encouraging rather than discouraging what we call, or what you may all know is the stock plan of insurance, which gives the insured the benefit, at the inception of his policy and yearly, of the earnings which would be distributed under the forms of a mutual policy—

Mr. ALEXANDER. The New England is a mutual company?

Mr. BULKELEY. Yes, sir.

Mr. ALEXANDER. And your company, the *Ætna*, is a stock company?

Mr. BULKELEY. We have a stock company, but we have within ourselves a mutual department, to which the entire profits to the business from that class of business is distributed to the policy holders. It is a mutual company within a stock company, all the earnings from that class of business going to that class of policy holders in which the stock part of the company have no interest whatever, except to conduct the business.

The Travelers is in the same condition to-day. They issue a form of policy with a guaranteed dividend; not a distribution of the profits of the business, but what they estimate. It may be more or it may be less, but they guarantee a certain dividend in any event. I understand that there is some amendment which I have not seen; it is in the list here, but I have not seen it. It is one of those things in discussing the bill that I do not care particularly to go into, only I think you should be very careful in preparing that code. I want you to understand, in the first place, that I am in favor of perfecting an insurance code for the District of Columbia as nearly perfect in its details as it can possibly be made, and that I think this bill has a foundation from which to work, and that you may be able, if you have the time to give to it, to formulate, with the aid, possibly, of the commissioner or such talent as you may choose to bring in to consult with you, a code, because it is not necessarily very long, and a large part of the detail of this bill, I think, should be avoided.

Mr. ALEXANDER. Senator, do you approve the bureau feature of this bill; the appointment of a commissioner and having a bureau within the Department of Commerce and Labor?

Mr. BULKELEY. Well, that is entirely immaterial, in my judgment; but I take it that the only reason for that was to perhaps dignify—not with any intention to engraft, even apparently, Federal supervision of insurance—but rather to dignify the department, if possible, by having it connected in that way, practically an independent department. I think the commissioner in the present conditions is just as well. Commissioner Drake, are you appointed by the President or by the Commissioners of the District?

Mr. DRAKE. By the Commissioners.

Mr. BULKELEY. The Commissioners of the District appoint the commissioner. If the President appoints the Commissioners, I do not

know why he could not appoint, if he chose, or if this Congress chose to give him the authority, a high officer, the same as he appoints the Interstate Commerce Commissioners or any officials of that character. If it would add any dignity or give apparently a higher character to the office, I can see why it would be quite desirable to put the appointing power in the hands of the President instead of in the hands of the Commissioners. That would not make it a Federal office any more than the Commissioners of the District of Columbia are Federal officers. But for that I have no particular choice.

Mr. AMES. What, in your judgment, would be an adequate compensation for a good commissioner in the District?

Mr. BULKELEY. Well, I do not know. He has no large local companies.

Mr. AMES. For a model department, to make examinations as we provide in this code?

Mr. BULKELEY. He should have anywhere from \$7,000 to \$10,000 a year. You ought not to get a good man for less, because you can not keep him if you do not give him good compensation. If you get a man down here that is a high-class man, and he is not getting the compensation that he should have, some of the fellows will be trying to get him away at the first opportunity, and will do it. We are not losing any opportunities to get the best talent in the country.

There are prescribed here, and the balance of the book is very largely confined to, the standard life insurance policies. Nobody would object, if you chose to have a standard life insurance policy, to having such a policy; but I do not think there should be any law that would prevent a company, possibly with the approval of the insurance commissioner, issuing some other policy than that standard form of policy which the public seems to demand. I do not think there should be a requirement in that bill that when a company has taken to an insurance commissioner and asked his approval of a form of policy which they have ingeniously invented, that it should consequently be permitted that every other company should use it, or that it should then form a standard policy which every other company should issue. I think they should have the advantage of it. If they have had the courage and independence and the knowledge and ingenuity to develop some scheme of insurance, peculiarly their own, I think they are entitled to that. I have no objection to the standard policy, providing there is some provision for protecting companies in developing plans.

The whole business, the present simple incontestable forms of policies have been the growth of forty or fifty years' experience, and they have engrafted on all these policies these schemes for extended insurance, for loans, for cash-surrender values, and everything of that character that has tended to make it easy both to get in and to get out of a life-insurance contract. The great cry for many years was that there was no way to escape after they had once entered into a contract with a company. It has been the study of our actuaries and of our managers for years to devise an easy way, if through any cause, misfortune or otherwise, a man was unable to pay his premium, whereby paid-up values would be provided for, and, as I say, extended insurance and loans and various devices of that sort to accommodate the necessities of policy holders. And the ingenuity of the companies will be tending always in that direction, unless you strive to and do curb them by law from extending from time to time the benefits which

the business warrants and which they see they can properly and without danger accord to their policy holders.

I am much obliged to you, gentlemen, for the time you have given me, and I want to assure you that from the Connecticut companies you will have hearty cooperation and encouragement in formulating for the District of Columbia, which is under your government, a law which will redound to the credit of the men that are engaged upon it and do produce it, and which will not be very burdensome upon the corporations which you expect to do business under it.

Mr. DE ARMOND. I would like to ask you a question. In getting up that model code would you incorporate a provision forbidding contributions to political parties by insurance companies?

Mr. BULKELEY. I have no objection whatever, sir, to it. We shall live up to the law, whatever you make it.

Mr. DE ARMOND. That is not an answer to my question. You are advising about making a model code.

Mr. BULKELEY. I have no objections to inserting such a provision.

Mr. DE ARMOND. That is not advice; that is consent. I ask whether, in making a model code, you would incorporate a provision of that kind?

Mr. BULKELEY. If I was going to make one, no.

Mr. DE ARMOND. Would you incorporate a permission, an express permission, to make such contributions?

Mr. BULKELEY. I do not think that is necessary, so I would not do it.

Mr. DE ARMOND. You would not do it?

Mr. BULKELEY. No.

Mr. DE ARMOND. You would just leave it as it is?

Mr. BULKELEY. I would.

Mr. DE ARMOND. So far as that feature is concerned?

Mr. BULKELEY. I would leave it to the good judgment—and you would usually have good judgment—of the managers of those corporations in the protection of the policy holders' interests.

Mr. DE ARMOND. As to that feature, you think the model has really been reached in what you advocated a little while ago?

Mr. BULKELEY. I think it has been reached in what I have just said, that I would leave it to the judgment, and it will usually be good—even if it has been bad in my instance, in your opinion—of the managers of the 30 life insurance companies and the 100 or 200 fire insurance companies of the country, in the protection of the best interests of the policy holders that are intrusted to them.

Mr. DE ARMOND. I understand, then, that the course of these companies in 1896 was a model?

Mr. BULKELEY. I did not say anything of that kind.

Mr. DE ARMOND. Was it, or was it not?

Mr. BULKELEY. I did not say anything of the kind. I have said what I would do.

Mr. DE ARMOND. We are talking about making a model law.

Mr. BULKELEY. I say as far as I am concerned I would not put it in; and I would not put in any license for them to do it.

Mr. DE ARMOND. Then one reason you would not put it in, if you are making a model law, is because that part is all right—that is, the model?

Mr. BULKELEY. That was the reason that you put in. I did not say that.

Mr. DE ARMOND. Ordinary men, who are not presidents of insurance companies, or members of the United States Senate, can generally answer an ordinary question without quibbling about it.

Mr. BULKELEY. We are all ordinary men.

Mr. DE ARMOND. Some of us are very ordinary.

Mr. BULKELEY. I find that often in both branches of Congress we find some very ordinary ones.

Mr. DE ARMOND. There is no doubt about that. We have had a demonstration of that.

Mr. AMES. I should like to call your attention to section 25, which I think the committee has been misled about. As amended, or as proposed to be amended, that will permit your companies to do business, for it refers only to mutual companies.

Mr. BULKELEY. I see no objections to it, only I do not see any reason why a mutual company should not issue a nonparticipating policy.

Mr. AMES. On that subject, did not your company get into litigation some time ago, and was it not found by the courts that the stock company had issued its policies at such low rates that the mutual part of your company had to make good to the stock end of it?

Mr. BULKELEY. No, sir.

Mr. AMES. And the stock end had to turn money over to the mutual end of it?

Mr. BULKELEY. No, sir.

Mr. AMES. Or was it the reverse?

Mr. BULKELEY. Neither.

Mr. AMES. All right, then; I have been misinformed.

Letters from officers of Connecticut insurance companies, publication authorized by the chairman as part of address of Mr. Bulkeley, follow:

THE CONNECTICUT MUTUAL LIFE INSURANCE COMPANY,
Hartford, May 14, 1906.

HON. MORGAN G. BULKELEY,
United States Senate, Washington, D. C.

DEAR SIR: Accept our thanks for your message of Saturday as to presentation of our views upon the amended Ames bill. We beg to confirm our early announcement of to-day, that we should express our views briefly in a later telegram, and also to confirm our telegram in this behalf of the following tenor, to wit:

"Amended Ames bill received Saturday. No time offers for full statement of our views. If they may be made known to the committee through your good offices, they are these, very briefly expressed:

"We assume the bill seeks to establish an insurance code for the District of Columbia which may serve for a model for the States, and thus lead to uniform insurance legislation. It must therefore be a code acceptable to the several States, if they entertain its adoption, and acceptable to the companies, if they elect to do business in the District of Columbia.

"We favor any legislation which will relieve policy holders from the increasing and intolerable burden of taxation of their franchises, reserves, and premiums for general State purposes or which will give to their interests any protection already covered by existing laws, if properly enforced.

"In our judgment, no State will accept or adopt this bill in its present form in lieu of its own insurance code. It stands squarely across vested corporate rights, powers, and privileges, which have well served for a half century in some cases, and it would compel their abrogation through charter and statutory

amendments, which no State will willingly grant, and no company with a due regard to its members' interests will seek.

"The bill is crude and contradictory in some of its provisions and inequitable and uncalled for as applied to the conservative companies, who are guilty of no wrongdoing and whose management is entirely satisfactory to their policy holders.

"If enacted in its present form, we would be compelled to withdraw from the District of Columbia, and we shall not stand alone in that necessary action.

"The bill is a hotchpotch of the 'Armstrong bill,' so called, in New York, enacted to reform manifest evils at home, and other provisions. It is only dignified by hasty executive sanction and by reference to a committee of the Congress, possibly as an introduction to sane, safe Federal legislation at some time, when one of the greatest interests of this country, touching the welfare of 20,000,000 of its people, can receive the calm, intelligent, and impartial consideration and treatment it demands and deserves.

"The bill does not bear even the indorsement of the Chicago convention, which gave it impetus. The whole matter was postponed for discussion and action at the convention of insurance commissioners next September.

"It is admitted that the Ames bill is imperfect and inadequate, and requires material amendment, in Mr. Drake's report accompanying the President's special message.

"Massachusetts, Ohio, and Iowa postponed all legislation on insurance for further study and deliberation.

"This is no time for hasty, impolitic, and radical legislation; and this suggestion finds emphasis and force in the resolution of Representative Esch, referred to the Committee on Rules, to consider the subject of Federal insurance legislation.

"The advantages claimed to result from the passage of this bill are absurdities. For instance, that the new department examinations and reports will replace those of the State officers, and that taxation will be abolished, and also the cost of compulsory advertising in the newspapers.

"The bill is in direct conflict with the laws of our own State, and the provisions of the charters granted by Connecticut to its own companies, and which neither the State nor the companies will forego, qualify, or sacrifice, unless for controlling and satisfactory reasons, and especially since its companies have had no share in the iniquities of management which have caused the present agitation, and which can not be cured by legislation that is enacted in haste and in ignorance of vital facts.

"Other practical objections we shall make note of later."

I have treated this matter, as you will note, entirely from its general aspects, and have left the discussion of particular features of the bill, or sections, to a later date, save that I am now inclosing herewith certain practical objections noted by our actuary, Mr. Daniel H. Wells, on the original bill, and which I presume apply as well to the amended bill; and our legal adviser here, Mr. Lucius F. Robinson, will make a study of the amended bill and forward to you his comments thereon, if you deem it expedient at this time that we enter upon further consideration of this measure, and upon this point we shall be very thankful for your advices.

Regretting very much my inability to be in Washington this morning, owing to my engagements, especially one that takes me West to-morrow for about two weeks, and with many thanks for your welcome suggestions and for your courtesy, which we most thoroughly appreciate, I am,

Respectfully, yours,

JOHN M. TAYLOR, *President.*

THE CONNECTICUT MUTUAL LIFE INSURANCE COMPANY.

Hartford, May 8, 1906.

MR. JOHN M. TAYLOR,

President The Connecticut Mutual Life Insurance Company,

Hartford, Conn.

DEAR SIR: In accordance with your request I have run over somewhat hastily the so-called Ames bill, No. 17760, of the House of Representatives.

It is perhaps worth while to quote a couple of paragraphs from the letter of April 14 of Thomas E. Drake, superintendent of insurance for the District of

Columbia, to the President as illustrating the absurdity of some of the expectations or professed expectations of those urging the bill.

"Third. The result of his examinations of foreign and domestic companies will no doubt be accepted in time by the various State insurance departments, thereby saving the cost to insurance companies of numerous examinations and the accounting also to forty-odd insurance departments.

"Fourth. It will abolish taxation on insurance premiums for revenue; also the arbitrary advertising of the companies' annual statements in newspapers and trade journals," etc.

The bill is in large part copied from the bills introduced by the Armstrong investigating committee in the legislature of New York, and, thus copying them, introduces some absurdities which the originators do not seem to have taken the time and trouble to eliminate. Thus on page 8, lines 19, 20, and 21, we read, it being in the "Form of return of life-insurance companies:" "A statement of any certificate issued by the superintendent extending the time for the disposition thereof;" but nowhere in the bill do I find any other reference to any such certificate by the superintendent. Also, on page 42, lines 20 and 21, is reference to "a contingency reserve not in excess of the amount prescribed in this act," but nowhere in the bill as printed does there appear any other reference to any contingency reserve, although Mr. Drake says this "was inadvertently omitted by the printer."

The bill undertakes to legislate for all companies and for the business of all places. It says, page 3: "All foreign insurance companies, as a condition of transacting any business of insurance within the District of Columbia, shall be subject to the provisions of this act," and many of the sections have reference directly to all life-insurance corporations doing business in the District of Columbia. Thus sections 34 to 46 deal with matters covered by our charter and the laws of our own State and in many respects are in direct conflict with such charter or laws. Thus it is provided in section 34, page 36: "That every mutual life-insurance company organized or authorized to transact business in the District of Columbia shall classify its trustees, directors, or governing board so that the terms of at least one-third of the members thereof shall expire each year," while under our charter the terms of only one-fourth of our directors expire each year. Again, in section 35, it provides "That each policy holder of any such company shall be a member thereof," while under our charter persons insured under nonparticipating policies are not members. In section 36 it provides that certain members shall not be eligible as directors; in section 38, for cumulative voting, and in section 43 that, under certain conditions, certain members shall not be permitted to vote at the annual meeting of a company.

The bill provides standard forms of policies, substantially copied from the forms proposed by the Armstrong committee prior to their amendment by said committee, and, so far as my opinion is concerned, I would not hesitate to withdraw from the District of Columbia, or from any State, in preference to the adoption of such forms. Thus the forms provide, page 52: "The company at any time will advance upon the sole security of this policy, at a rate of interest not greater than — per centum per annum, a sum not exceeding the amount specified in the table of loan values herein set forth after deducting therefrom all other indebtedness to the company. Failure to repay any such advance or interest shall not void this policy unless the total indebtedness to the company shall exceed the aggregate of the net value of the policy and of all additions thereto and all dividends, and accumulations and notice shall have been given by the company, as prescribed by law;" and this is one of the many objectionable and absurd features of the proposed forms.

The bill provides that "Every insurance company doing business within the District of Columbia shall annually, on or before the fifteenth day of January, file in his office such annual statement exhibiting its condition on the thirty-first day of December of the previous year and its business of that year. For cause the commissioner may extend the time for such filing, but not to a later date than the first day of March." On page 113, section 95, the bill provides "That a company which neglects to make and file its annual statement in the form and within the time provided by section nine shall forfeit one hundred dollars for each day during which such neglect continues." It does not need to be said that it is impossible to file the statement with the various States by the 15th of January, and that unless we think to ask for an extension, and the commissioner sees fit to grant it, we are liable at any time to subject ourselves to the penalty named in section 95.

On page 16, lines 4 and 5, preliminary term policies and a preliminary term valuation are recognized in the law.

The bill forbids mutual companies to issue nonparticipating policies, and does not even except annuities.

I have not attempted to point out many of the absurdities in the bill. Thus, in section 47, in regard to the distribution of dividends, it is provided that the aggregate amount of all divisible surplus "shall be equitably apportionable to all policies issued on or after the first day of January, nineteen hundred and —," and the company "shall ratably apportion such amount to said policies." Taken literally this would forbid the payment of any dividends under any policy issued prior to the date named.

Hoping that these suggestions may in some degree serve your convenience, I am,

Respectfully, yours,

D. H. WEBB, *Actuary.*

PHOENIX MUTUAL LIFE INSURANCE COMPANY,
Hartford, Conn., April 28, 1906.

HON. M. G. BULKELEY,
United States Senate, Washington, D. C.

DEAR SIR: I duly received yours of the 23d and have looked over rather hastily the report and bill which you sent me.

I am sure that the plan of framing a law for the District of Columbia which shall be a model for the various States, and thus result in uniform legislation, is a project which will commend itself to the people generally and to the insurance companies especially. But if a law shall be passed by Congress which can only be effective in the District of Columbia, while it may at the moment gain the thoughtless applause of those people who do not realize that insurance as a whole has been conducted wisely and fairly, and has been of great service to the people, and that great interests have been placed in the hands of the managers of these companies which they can not neglect, and if as a consequence many of the better companies should feel it necessary to withdraw from the District of Columbia rather than imperil the interests of their institutions, then the law will fail of its purpose.

As this bill now stands I do not think that this company would be willing to subject its policy holders to certain perils and inequities which would result from a compliance with its provisions. There are some manifest errors in the bill, which no doubt have been the result of oversight rather than of intention, but there are some principles which I do not think the most liberal and conservative companies in the country would agree to.

I do not see, for instance, what excuse the District of Columbia, or any State other than the one in which it is located, would have for dictating the method by which a mutual life insurance company should elect its directors, and it seems to me that there are distinct dangers in the plan proposed in this bill without any corresponding advantages.

The annual distribution of dividends is also, I think, an attempt to take from the managers of a company certain responsibilities which should be placed upon them.

Forms of standard policies do not seem to me likely to produce that liberality and equity which is so important in the management of an insurance company.

In all these matters I feel quite strongly that the managers of insurance companies are much better qualified to frame laws than those who have had but little experience in the practical working of this business.

Very truly, yours,

JOHN M. HOLCOMBE, *President.*

THE TRAVELERS INSURANCE COMPANY,
Hartford, Conn., May 7, 1906.

HON. MORGAN G. BULKELEY,
President Aetna Life Insurance Company, Hartford.

DEAR SIR: Some days ago you sent me a copy of the Ames bill, requesting comments thereon.

After reading it I requested Mr. Messenger to discuss it from his point of view as an actuary. Upon reviewing his comments, I find that he has not only done so, but has also covered some points I expected to write about. Mr.

Bro Smith tells me that he also has written or expects to write, so that these gentlemen have left me little to say. I can add little more than the following:

If it is expected that this bill will be used as a model for the legislatures of various States, I should say section 21 ought to be so amended as to make it perfectly clear that no company having the right under the charter of its own State to do life, accident, and liability business should be excluded from either class by the legislation proposed.

The returns required seem to be unnecessarily particular. To furnish all the details required by section 9 would make it almost necessary to file copies of all the entries for the year and would furnish neither the department nor the public with information of value in determining the real condition of the company.

Section 25 clearly prohibits a stock company from issuing both participating and nonparticipating policies. I do not object to the restriction in the same section that mutual companies shall do no other than mutual business; but it would be better, I should think, to permit stock companies to do both classes of business, with suitable provisions for the protection of participating policy holders. The section as it now stands permits stock companies to do participating business. If a stock company can do that kind of business with propriety at all, which nobody denies, it is extremely difficult to see how that business is placed at any disadvantage by writing stock insurance also, provided the policy holders of both classes are properly protected, which it is easy enough to do by separate accounts, and separate investments and statements also, if necessary.

The provision for the election of directors by mutual companies permits cumulative voting. Unless like provision is made in the charters of the several mutual companies, I should think it would be impossible to comply with both charter and act of Congress. If the Connecticut Mutual and the Phoenix conduct their annual meetings according to their charters, which do not allow cumulative voting, they would thereby be excluded from transacting business in the District of Columbia if the Ames bill should pass in its present form.

In the foregoing requirement, which illustrates many others, the bill either does not go far enough or it goes too far. It is midway between an act for the control of insurance companies by Federal authority and an act for the regulation of insurance for the District of Columbia. While it does not purport to be an act for complete Federal regulation, it nevertheless encroaches substantially upon the authority of the States to regulate the corporate organization and government of their own corporations. If it were the purpose of the framers of the bill to use it as the beginning of a system of Federal control, it would have been better for them to go about it frankly and directly, instead of indirectly disguising the regulation of such domestic and internal affairs by the mask of requirements to be complied with to qualify companies for the transaction of business in the District of Columbia.

Such other comments as I might make upon the bill would require so much time and space and add so little to what you already have that I will spare you.

Sincerely, yours,

S. C. DUNHAM, *President.*

[Memorandum for the president.]

ACTUARIAL DEPARTMENT, *May 4, 1906.*

H. R. 17760. A bill regulating the business of insurance within the District of Columbia, introduced by Mr. Ames.

First. This bill places no restrictions on the amount of life business which a company shall issue, on the amount of commissions to be paid to agents, on the total expenses of the company, or upon the expenses during the first year.

Second. This bill makes no provision for substandard insurance unless the latter part of section 54, on page 80, which provides for policy forms, in addition to the four standard forms, to be submitted to the commissioner for his approval, is considered a provision for substandard insurance.

Third. This bill does not provide for restrictions of liability by reason of travel, occupation, change of residence, or suicide, except for one year. I suppose this means that if we take a freight brakeman we can protect ourselves only for the first year.

Fourth. This bill does not provide for any cash surrender value on the policy, except in the indirect way of providing a loan value. The insured can take out a loan on the policy, paying interest for one year, and then stop payment of premiums and interest on the loan and not pay off the loan. The company's only remedy is to cancel the policy, and in an indirect manner the insured gets the loan value as a cash surrender value on the policy.

Fifth. It is not perfectly clear to my mind whether this bill will permit this company to do the different kinds of insurance which it is carrying on at the present time. Portions of the bill bearing upon this question are section 2, commencing at the bottom of the second page; section 21, commencing at the bottom of page 23; the third paragraph of section 22, on page 26, and section 78, on page 104.

Sixth. Section 9, Form A, "Form of return of life insurance companies," commencing on page 8, calls for detailed reports of a completeness and minuteness which will mean a great amount of work and a considerable expense if fully carried out, and which, upon the whole, is of such a serious character as to make it desirable to avoid a good share of the requirements. While there is no objection to giving reasonable information, this section calls for much that is unnecessary and much that will never be seen after being handed in to the department. These requirements will be considerably simplified and lessened in the case of a company doing nonparticipating business only.

Seventh. This bill requires that dividends shall be paid annually on all participating policies, and that every such policy shall receive a dividend each year for which premium has been paid. This means that the usual practice of paying a dividend only in case the premium for the next year is paid is to be done away with. All policies on which the premium is paid for only the first year and which then lapse are entitled to a dividend at the end of the first year just as much as policies which are continued in force. This will mean that annual dividend participating policies will make a much better net showing for the first few years than heretofore, while policies after they have been in force quite a number of years can not make nearly as good a showing. All those policies which lapse at the end of the first year and formerly received no dividend at all will now receive one dividend. All those policies which lapse at the end of the second year, and which probably formerly received one dividend only, will now receive two dividends, etc. This means that a great many more dividends will be paid, particularly in the earlier years, which must necessarily considerably reduce the dividends on those policies which continue a long time in force.

Eighth. This bill provides for paid-up and extended-term insurance on the standard term policies. The amount of paid-up insurance and the length of the term in extended-term insurance which the reserve on the term policy will purchase is so small that this provision seems to be almost ridiculous.

Ninth. The bill provides that no company can do both participating and nonparticipating business. This provision is not only reasonable, but desirable, and it seems more than probable that if this bill does not become a law at least this restriction of life companies to either the participating or nonparticipating business will be insisted upon by a number of the States.

Tenth. In section 4, which outlines the standard policy forms, the option on surrender or lapse gives paid-up or extended-term insurance on the basis of the full reserve. This to my mind is altogether the most serious feature of the bill. It is wholly unjust, wholly unscientific, and directly antagonistic to the life-insurance idea. It is wholly unjust because it requires the company to give a paid-up value greatly in excess of the accumulations on the policy, even upon the assumption of the reduction of expenses of the first two years to a point which all would recognize as being exceedingly moderate and reasonable. It is unscientific because it assumes that the accumulations at the end of the second year have approached as nearly to the full reserve as at the end of the tenth or twentieth year. It is directly antagonistic to the life-insurance idea because it acts as a great inducement for the insured at the end of the second year to take out a paid-up policy on account of the unreasonably large value given.

Below is given a table comparing the paid-up insurance now given by the Travelers with the proposed value which would have to be given according to this bill at the end of the second and third years for the ordinary life, twenty-payment life, and twenty-year endowment policies—both participating and nonparticipating—for ages 30 and 50. For the end of the third year the ordinary life paid-up values will have to be largely increased, but for the twenty-

payment life and twenty-year endowment the values can be materially decreased, so that the one about neutralizes the other. But for the end of the second year the required values under the bill are away beyond reason. For instance, on the ordinary life participating policy, at age 30, we are now giving \$32; the new bill requires \$51. On the ordinary life, nonparticipating, age 50, we are not giving any paid-up insurance; the new bill calls for \$93. Within parentheses, below the Travelers regular paid-up values, are given for age 30 the figures showing the paid-up insurance which the actual accumulation will purchase, and this will be seen to be very much less than the value required by the proposed law.

Comparison of paid-up of Travelers, participating and nonparticipating, with the value obtained by allowing full net value, and Travelers present single-premium rates according to the Ames bill.

SECOND YEAR PARTICIPATING.

	Ordinary life.		Twenty-payment life.		Twenty-year endowment.	
	Travelers value.	Proposed value.	Travelers value.	Proposed value.	Travelers value.	Proposed value.
Age 30	{ \$32 a 32 }	\$51	{ \$75 a 73 }	\$97	{ \$75 a 87 }	\$107
Age 50	{ 52 }	71	{ 75 }	91	{ 75 }	100

SECOND YEAR NONPARTICIPATING.

Age 30	{ None. a \$20 }	\$48	{ None. a \$54 }	\$93	{ None. a \$72 }	\$106
Age 50	{ None. }	73	{ None. }	93	{ None. }	101

a Paid-ups purchased by Travelers single premiums at end of two years.

It will be seen from the above tables that the paid-up values required by this bill for nonparticipating business are practically the same as for participating business, and if the participating single premium is not decreased, and yet is considered upon a 3½ per cent basis, we will have the absurd result of giving much larger paid-up values on the nonparticipating than on the participating policy. The only remedy, unless the law is modified, will be to advance the nonparticipating single premium to a figure which would be, for many reasons, very objectionable.

To summarize the objections to this bill, paying attention to those features which seem to come within the province of the actuary, and arranging them in order of their seriousness, we have, first, a paid-up surrender value at the end of the second year based on the full reserve. This is the worst feature of the bill, and can not be justified on any ground. Even from the standpoint of the policy holder it robs the other policy holders for the benefit of those who surrender their policies at the end of the second year. This company should see to it that the strongest representations of the situation are made before the Congressional committee.

Second. The requirements in regard to statements and reports to be made to the commissioner. These are so burdensome that they are highly objectionable on account of the great amount of work required and the necessarily great expense.

Third. No provision for substandard insurance or for extra hazards is made except by the limitation which runs out at the end of the first year.

Fourth. Paid-up and extended term insurance on term policies.

NOTE.—The option in the standard policy, according to this bill, as stated at the top of page 53, is rather indefinite, and possibly it will be interpreted to mean that at the end of the second year the policy may be surrendered for a paid-up policy purchased by the full reserve on the basis of the net single premium instead of the company's gross premium. If this is the case, this feature of the law will be very much more objectionable than stated above.

H. J. MESSENGER, *Actuary.*

THE TRAVELERS' INSURANCE COMPANY,
Hartford, Conn., May 12, 1906.

HON. MORGAN G. BULKELEY,
Senate Chamber, Washington, D. C.

DEAR SIR: I beg to submit the following criticisms of bill H. R. 17760, introduced by Representative Ames, of Massachusetts:

1. Section 1, line 7: The words "except fidelity and surety companies" should be stricken out. Fidelity and surety companies are included with other insurance companies under the laws of New York, Massachusetts, and other States, and I can not recall any good reason why they should be excluded under section 1 of this bill, particularly when they are included under subsection 4 of section 21, as forms of insurance for which domestic companies may be incorporated.

2. Section 1, lines 4, 5, and 6, on page 2: The definition of "net assets" should not be limited to the funds available for the payment of the obligations of the company within the District of Columbia.

3. Section 2 should exempt foreign companies from compliance with section 26 and other sections of the bill which are regulative of domestic corporations. The language in the last sentence of section 2, "All foreign companies as a condition of transacting any business of insurance within the District of Columbia shall be subject to the provisions of this act," is too broad.

4. Section 8, lines 22 and 25, page 5, and lines 1-21, page 6: It is proper that the commissioner of insurance should be authorized on his own initiative, or at the request of the insurance superintendent or commissioner of any other State, or at the request of the company to be examined, make an examination of any company authorized to do business within the District of Columbia, but what power has Congress or any of the insurance officials of any State in the Union to authorize the insurance commissioner of the District of Columbia to examine a foreign insurance company not doing business within the District? If it is a purpose of this bill to establish Federal supervision, it seems to me that purpose should be accomplished by unequivocal declaration.

5. Section 10, page 15: It would be better to separate the provisions of this section by distinct section numbers, so that the provisions for the computation of the net value of insurance upon lives shall be stated in one section and the provisions for reserves for companies other than life in another section. The paragraph in relation to insurances other than life, whether retained in the present section or separated, should also include a provision for a liability reserve in addition to the unearned premium reserve, and this additional liability reserve should be based upon the experience of the companies along the lines of the laws passed in 1905 by the States of New York, Massachusetts, Connecticut, Illinois, and California.

6. Section 13, page 18: Unless the existing laws of the District of Columbia regulating the service of process upon domestic insurance companies are sufficient, this section should include a provision for such service. Furthermore, the section should be amended with relation to foreign insurance companies so as to authorize service of such process upon the commissioner as the attorney for that purpose of the foreign company and to exclude all other methods of service of process upon foreign corporations. Subsection 3 of section 75 calls for the appointment of the insurance commissioner as the attorney for the service of process upon the foreign corporation, but does not obviate the criticism above suggested. As this bill is held out as a proposed model, it should be made as nearly perfect as possible in this and all other respects.

7. Section 15, line 7 and 8, page 20: The words "such violation has been committed, or whether" should be stricken out. In their present connection they are without meaning and confuse the sense, and all of the grounds upon which the commissioner may act, as set forth in lines 7-15, inclusive, on page 19, are substantially repeated in lines 8-12, on page 20.

8. Section 19: The charges and fees provided in this section, while they correspond with present statutory requirements of a number of the States, are unreasonable and illogical. Why should \$30 be charged for filing a charter and \$10 for amendment to a charter, or \$50 for filing valuation of life policies made by the insurance official of one of the States, when only \$20 is charged for filing the annual statement? The fees as stated in the bill as between themselves are out of all proportion to the amount of labor which an examination of the various papers will impose upon the commissioner. A better plan would seem to be to enlarge upon the idea incorporated in the insurance law passed by the State of Virginia last winter—to omit all direct charges for receiving and filing papers and issuing certificates, and to provide for the apportionment of the cost

of maintaining the department between the companies doing business within the District upon the basis of premium income.

9. Section 20, lines 21-23, page 26: This provision should be modified. There is no good reason why companies which are authorized by their charters to issue contracts of life, accident, and health insurance, should not be permitted to include in one contract insurances upon life, against accident and against disability from sickness, either with or without the statement of separate and noninterdependent premiums.

10. Section 23, lines 19 and 20: The words "subscribers to the agreement of association shall hold the franchise until organization has been completed" might well be stricken out, and the words "in the case of a company organized upon the stock or temporary stock plan" inserted in lieu thereof. It is not easy to appreciate that there can be a "franchise until organization has been completed."

11. Section 25: It is proper that a mutual life insurance corporation should be confined to participating life insurance, but is there any valid reason why a stock life insurance corporation may not issue both participating and nonparticipating policies of life insurance? A mutual company which guarantees results to one class of members or policy holders by nonparticipating contracts does so at the expense of the mutual members or policy holders, who are, from the very nature of the organization, entitled to share in all the profits. A stock company, however, may with entire propriety guarantee by the capital and assets of its stockholders to one set of policy holders results under nonparticipating contracts of insurance, and to other sets or classes of policy holders agree to give participation in the profits which may be earned in such sets or classes. Of course, if the principle enunciated in this section is to be followed by the various States of the Union, and the stock companies and mutual companies confined, respectively, to nonparticipating and participating insurance, the stock companies may so adjust their affairs as to make compliance, and, likely, with very good results. My criticism is directed particularly against the idea that there is any principle behind the proposition that a stock company may not write both kinds of life insurance.

12. Section 26: Would not this section be improved by substituting therefor the provisions of our own Connecticut General Statutes, as found in sections 3562-3568? I do not recall any other statutory regulations for the investments of life insurance corporations at all comparable with those of Connecticut. Subsections 8 and 9 make provisions for investments of a character that have not heretofore been considered as the most desirable for life insurance corporations, but is it likely that a depositor in a national bank, or even a savings bank, will transfer his deposit and deposit book as collateral security for the repayment of a loan not exceeding one-half of the amount which he might withdraw from the bank? If by "capital," as used in subsection 9, is intended the entire assets of the company, and not the incorporation capital as represented by the stock, quite a considerable amount of money might be invested upon what are really negotiable and nonnegotiable indorsed papers; in other words, this subsection would authorize an insurance company to do a banking business.

13. Section 29: A more orderly place for the first sentence "That such company shall not engage in any business other than as specified in its charter or agreement of association, and as previously authorized by law" would be at the end of section 22.

14. Section 75: The same criticisms and suggestions concerning fees and charges under section 19 apply to the fees and charges provided for by this section.

15. Section 76: It would appear to be the intent of this section that foreign corporations may be authorized to transact within the District of Columbia the different kinds of business authorized by their charters in excess of the limitations imposed in section 21 upon domestic corporations, provided the capital stock is equal to the aggregate required of domestic companies, but the proposition might be stated with more clearness, so that no question may be raised as to the authority of companies like the *Ætna* and the *Travelers'* to issue within the District of Columbia the various kinds of insurance upon and pertaining to life and accident to persons which are authorized by their respective charters.

16. Sections 89 and 91: There appears to be a little confusion in terms or ideas in these two sections.

My suggestions, so far, relate to what appear to be defects in particular matters, assuming that the bill as a whole will receive favorable consideration,

and some of these particulars may not be of vital importance, but I do believe that the bill in its general form—if it is to be favorably considered and to be made use of as a model, so as to secure uniformity in the statutory regulations of the business of insurance—should be reconstructed so as to state tersely and more accurately the provisions applicable to insurance companies generally, and then in subdivisions in due order regulations for both foreign and domestic corporations engaged in life, different forms of casualty, and fire and marine business. In this connection, the bill which is being prepared by the Board of Casualty and Surety Underwriters as the basis for the casualty division of a model insurance code, and like bills which I understand are being prepared for the life and marine and fire departments of underwriters, might be considered with profit by the committee having the Ames bill in charge.

As President Dunham and our actuary, Mr. Messenger, have submitted views concerning the actuarial and policy form features of the bill, I have refrained in these respects, and regret exceedingly that I must trouble you with so long a communication.

Very truly, yours,

WM. BROS. SMITH, *Counsel.*

ÆTNA LIFE INSURANCE COMPANY,
Hartford, Conn., May 12, 1906.

HON. MORGAN G. BULKELEY,

President, 2017 Twenty-second street NW., Washington, D. C.

DEAR SIR: I have received the amended Ames bill this morning and hasten to meet your wishes, as far as possible, by inclosing herewith suggested amendments.

The first, on page 14, is to give us more time for making our annual statement. Now, a considerable number of States give us until March 1, and none of them require the statement before February 1. January 15, as provided in the bill, is too short a time.

The amendment suggested on page 26 is for the purpose of enabling us to do life, accident, health, and liability insurance in one company.

The amendments on page 42 are suggested for the purpose of enabling us to continue the five-year dividend plan, which I still believe to be vastly better than to make the annual dividend plan compulsory; not so much from the Ætna's needs as from the standpoint of the public and from that of the many smaller and weaker companies that will be likely to weaken themselves in the effort to compete with the older and stronger companies in the matter of annual dividends, and will also be tempted to take of the surplus earned under older policies for the purpose of making an attractive showing under policies more recently issued.

On page 43 I have suggested eliminating the provision for the surplus or dividend to be applied to the payment of any premium upon the policy or the purchase of a paid-up addition thereto, because if the dividend is required to be applied to the payment of the premium the time when the policy ceases to be in force will be indefinite and disputes will arise on that account; and, also, after a policy may have been in force for a considerable time by virtue of this application of the dividend the insured will be sure to come around and expect the payment of the entire dividend in cash, and that will occasion dissatisfaction and dispute. It is also objectionable to apply the dividends to the purchase of a paid-up addition to the policy, because it enables the insured to secure additional insurance without a medical examination, which is an injustice to other policy holders.

The same reason applies to the suggested amendment in line 18.

On page 47, line 9, the suggested amendment is for the purpose of determining whether the insurance shall go to the wife or the children, which, in the language of the bill, is somewhat indefinite, or at any rate the bill would seem to provide for payment of the sum insured in part to the children when the policy does not name the children, and when it was the intent of the insured to make it payable wholly to his wife. The language suggested accords with that in the present Connecticut law.

In line 15, on the same page, I suggest eliminating all reference to giving with the policy a copy of the medical examination, which is not a part of the contract.

On page 48 I have suggested eliminating section 54, because it is impossible to define in a few words the character of a life insurance contract, including its dividend periods and other peculiarities, so that the holder thereof shall

not be liable to mistake the nature or scope of the contract. Any effort would, it seems to me, be more likely to result in a misunderstanding of the contract than if the insured is left with the idea that he should read the whole instrument, because in that way alone can he obtain a correct idea of its contents.

Section 55, on page 48, requires the use of standard policies only in the District of Columbia, and I wish that section might be wholly eliminated. However, if the standard form is to be provided, I can see some objections which ought to be corrected, and doubtless there are others which will disclose themselves upon a more careful examination than I have had time to give it. In the first place, that law provides for participation in every policy, and as the bill now reads would not enable the company to issue a nonparticipating policy.

The amendment which I have suggested to page 51, line 11, would seem to cover this objection.

On page 50, line 3, I have suggested changing the words "legal representatives" to "executors, administrators, or assigns," because it has been found that the interpretation of "legal representatives" has a different meaning in different States and has been decided differently in some of the courts. In some States I think "legal representatives" has been construed to mean "wife and children," and in other States the "executor or administrator." The words "executors, administrators, or assigns" would be much more satisfactory, and avoid some disputes.

The suggestion on page 52, line 4, is for the reason above explained, that dividends should not be applied to purchase paid-up additions at any rate without a medical examination, and I think the provision that the dividends may be withdrawable in cash will be simpler and more satisfactory to both parties; but on page 53, line 17, the policy provides that if the policy has lapsed the dividend shall be applied to purchase temporary insurance. I suppose it is well enough to let that provision remain. As the bill now reads there would be a slight conflict in the case of a lapsed policy between the provision in line 4, page 52, and that in line 17, page 53.

On page 52, line 8, the blank for the rate of interest on loans I have suggested filling with the word "six," though I believe most of the companies are now loaning at 5 per cent.

The above covers the pointed objections, so far as I have discovered, and we should be very lucky if the committee is induced to adopt them.

Yours, truly,

J. S. ENGLISH, Vice-President.

Suggested amendments to bill H. R. 18804, introduced by Mr. Ames.

Page 14, line 25, change the word "January" to "February."

Page 26, line 16, change this line to read "first, fifth, and sixth clauses."

Page 31, add to line 14 "except that a stock life insurance company issuing participating policies shall be permitted to issue nonparticipating or stock policies, provided this class of business is kept entirely separate and distinct from the other."

Page 32, line 7, eliminate the words "of more than thirty thousand inhabitants."

Page 33, eliminate section 9.

Page 42, line 13, before the word "policy," introduce the word "participating," and in line 14, after the word "that," eliminate all the words to the following period in the fifteenth line, and introduce in place thereof the following: "The accounting, apportionment, and distribution of the surplus shall not be delayed for a longer period than five years from the date at which the insurance went into effect, or from any preceding accounting, apportionment, or distribution of surplus." Eliminate the remainder of line 15, also lines 16, 17, and to the period in line 18, and introduce in place thereof the following words: "When any such accounting, apportionment, or distribution is to be made after setting aside," etc. From line 23, after the word "the," eliminate the word "remaining" and introduce, after the word "surplus," the following words: "divisible to policies entitled thereto by the dividend term adopted by such company, which surplus shall be equitably apportioned to all such policies issued on or after the 1st day of January, 1907." Eliminate the remaining words to the next period.

Page 43, line 6, eliminate all after the word "issue" to the period in line 8. From line 17, after the word "be," eliminate all the words to the following

period, in line 18, and introduce in place thereof the following words: "with drawable in cash by the owner at any time thereafter."

Section 47 thus amended will read as follows:

"That every life insurance company doing business within the District of Columbia shall provide in every participating policy issued on or after the first day of January, nineteen hundred and ———, that the accounting, apportionment, and distribution of the surplus shall not be delayed for a longer period than five years from the date at which the insurance went into effect or from any preceding accounting, apportionment, or distribution of surplus. When any such accounting, apportionment, or distribution is to be made, after setting aside from such surplus the sums required for the payment of authorized dividends upon the capital stock, if any, and for a contingency reserve not in excess of the amount prescribed in this act, every such corporation shall separately determine the aggregate amount of the surplus divisible to policies entitled thereto by the dividend term adopted by such company, which surplus shall be equitably apportioned to all such policies issued on or after the first day of January, nineteen hundred and seven. The share so apportioned shall be payable to the holder in cash or, at his option, accumulate to the credit of the policy at such rate of interest as shall be allowed by the company and be payable upon the maturity of the policy, or withdrawable in cash by the holder on any subsequent anniversary of its issue. Such company may require the holder of the policy to elect how said dividends shall be applied, as above provided, by mailing a notice of the amount of them and the options available as aforesaid to the policy holder in a sealed envelope in the manner required by the provisions of this act upon notices of premium payments, and in case he shall fail to notify the company in writing of his election within three months after the date of the mailing of said notice the surplus shall be withdrawable in cash by the owner at any time thereafter.

"The dividends shall be payable, respectively, either upon the anniversary of the policy next after said thirty-first day of December or upon a day certain in the year following said date, according to the rules of the company and the terms of the policy, and upon the sole condition that the premium payments for the policy year current upon said thirty-first day of December shall have been completed. This section shall not apply to any stock life insurance corporation which on or after the first day of January, nineteen hundred and ——— shall transact and represent itself as transacting its business exclusively upon a nonmutual basis and which shall, after said date, issue only nonparticipating policies."

Page 47, line 9, after the word "benefit," change the word "and" to "or," and, after the word "children," introduce the words "as may be provided in such policy."

Page 47, line 15, after the word "application," eliminate the words "and examination;" also eliminate the following parenthesis.

Page 48, eliminate section 54.

Page 48, section 55, in all the forms of standard policies, under the head "Participation," shown in the ordinary life policy on page 51, line 11, follow this clause with the words "or in case of a nonparticipating stock policy;" insert in place of this clause the following words: "this policy shall not participate in the surplus of the company," and eliminate from the policy all that portion thereof relating to dividends.

Page 50, line 3, in place of "legal representatives" insert the words "executors, administrators, or assigns."

Page 52, line 4, eliminate the whole of this line and insert in place thereof the words "withdrawable in cash by the owner at any time thereafter," or, if the policy has lapsed, "shall be applied as hereinafter provided."

Page 52, line 8, insert in the blank the word "six."

CONNECTICUT GENERAL LIFE INSURANCE COMPANY,
Hartford, Conn., May 3, 1906.

HON. MORGAN G. BULKELEY,
United States Senate, Washington, D. C.

MY DEAR SENATOR: I received your favor of the 23d, together with Document No. 333, "A message from the President of the United States transmitting the report and recommendations, with accompanying papers, of the insurance convention which met in February last at Chicago;" also a copy of bill H. R. No. 17760, by Representative Ames, introduced in accordance with the message.

I have been so very busy during the last two weeks that I have not had time to give the bill the attention it deserves. However, I did read it through with some care on the train last week, and made a note of some points which I meant to speak to you about. I am unfortunate in not having the copy of the bill which I read through in my hands at this time, but I can remember a few of the points, and I have another copy of the bill here, so that I will venture to state briefly what I particularly remember having noticed on my reading of the bill.

In section 26, page 31, there are careful provisions for the investment of the capital of domestic life insurance companies. This does not interest you and me, except that it is supposed to be set up as a model insurance bill, which other States may wish to copy. It has always struck me that the laws of the State of Connecticut relative to the investment of funds of a life insurance company were about as excellent as could well be devised, and I believe that the wider latitude and the fewer specifications there are as to exactly what sort of investments a life insurance company may hold the more opportunity there is for the exercise of good judgment on the part of the officers and for a favorable return of interest to the insured.

I am aware that these sentiments do not conform to the present tendency in legislative matters, and I am also aware that savings banks have been held up as models for life insurance companies to copy in the matter of their investments. As you yourself know, the sort of a man who is at the head of the average country savings bank has got to be hedged around with a good many restrictions in order to invest the funds of his clients safely.

I do not feel competent to criticise the sections dealing with the election of trustees for mutual life insurance companies; but I would call your attention to the fact that under section 35 it is stated that each policy holder of any company shall be a member thereof and entitled to vote at all meetings and elections. It was brought out at the hearing in Albany that the term "policy holder" was not a sufficiently definite one, and that it should be defined as the person whose life is actually insured in the company unless under the provisions of the bill it is wished to have the holders of assigned policies vote in lieu of the insured.

As I look upon this bill the most radical part of it is that under section 54, in which the standard policies are outlined. As I understand the cry for standard policy, it proceeds from the wish to put every company on an exact level in order that the returns to the policy holders may be measured in each company, and that no company may have the advantage of having any different or better contract than any other company.

Again, I believe, this to be a very mistaken idea on which to legislate, and think that each company should be left free to devise the sort of a policy which they believe they can most safely and best issue. The idea upon which the standard policy in this bill is devised is apparently that any surrender charge is wrong. This is a more liberal idea than I have yet seen advanced by any company under the stress of the fiercest competition. We have sometimes had surrender values which were after the fifteenth year greater than the reserve, under the deferred dividend plan, but the idea of being able to issue a policy with annual dividends, and in two years pay the full reserve as a single premium for any sort of extended or paid-up insurance is one that is, as I look at it, impossible if the business of life insurance is going to be actively prosecuted. These policies do not provide for any particular loan or cash value—that is, the company may fix them according as they choose. And apparently it is thought proper to exact a surrender charge if the insured fails to carry out his contract and withdraws his cash; but it is not thought proper to exact a surrender charge if the insured fails to carry out his contract and yet wishes to apply the reserve to extended insurance. Yet the latter action on the insured's part may be of vastly more harm to the company than the former action could possibly be. As far as I know it has been the general custom of companies to exact a little greater surrender charge if extended insurance option was taken than if paid-up insurance was taken, and there is, as we all believe, a natural selection against the company in the matter of dropping the policy and going upon extended insurance. However, some actuary could very much better criticise this policy than I can myself with the limited time which I now have.

It seems to me that if a model bill is going to be enacted, that the proper method would be to appoint a committee of experts and not try to have any gentleman, however able he may be, who is as unacquainted with the subject of life insurance as I understand Mr. Ames frankly states himself to be, re-

sponsible for the drawing of the bill. For instance, if a standard form of an insurance policy is to be framed, it seems to me that a committee of actuaries of various companies should be called together and settle upon what they believe would be a satisfactory form of a standard policy. This can then be submitted to any committee which is framing a bill for the insurance interests, and the committee of actuaries can be examined on the subject of the provisions of this policy, and if they are not able to satisfy the committee that the policy is as it ought to be, it can then be changed. I feel absolutely certain, however, that the person who drew this present standard form of policy had never been connected with a life insurance company in any official capacity.

If this letter is somewhat rambling kindly put it down to the fact that I am leaving the office this afternoon for a period of a couple of months or so, during which time I expect to be married and go abroad.

Yours, truly,

R. W. HUNTINGTON, Jr., *President.*

THE PHENIX INSURANCE COMPANY,
Hartford, Conn., May 8, 1906.

HON. M. G. BULKELEY,
United States Senate, Washington, D. C.

DEAR SIR: Many thanks for the copy of House resolution No. 417 (Each) just received. If this resolution becomes a law it will be wise action by Congress. Then, by-and-by, when the San Francisco storm is over, experienced fire underwriters can appear before the committee and present phases of the subject that never occurred to or were purposely ignored by the men who prepared the model (?) plan recommended by the President. As you well appreciate, the subject is too large, broad, and deep for a body of inexperienced men (insurance commissioners) to handle. Insurance commissioners come and go, and their point of view is too narrow. A model law can be drawn, but men knowing something about the necessities of the business should certainly be consulted.

I am, sincerely yours,

D. W. C. SKILTON, *President.*

STATEMENT OF CHARLES W. SCOVEL, PRESIDENT OF THE NATIONAL ASSOCIATION OF LIFE UNDERWRITERS.

Mr. SCOVEL. Mr. Chairman and gentleman of the committee, I think it proper first to state in what way I, as president of the National Association of Life Underwriters, and Mr. F. E. McMullen, of Rochester, N. Y., the second vice-president, and Mr. E. J. Clark, of Baltimore, the secretary of the National Association of Life Underwriters, come to be present in Washington at this hearing. It is for the sole reason that this bill and its consideration form part of the work of the national insurance convention, called last February by a preliminary committee of which Superintendent Drake was chairman, with the express concurrence of President Roosevelt, and to which convention our association was, without any solicitation or prior knowledge whatever on our part, kindly invited to send delegates. We are, therefore, not volunteers, nor do we come representing the home offices of the companies, all or any. We are here, so to speak, as "friends of the court," if I may use the phrase. The National Association of Life Underwriters is the only national life insurance body. Our position among all insurance men is unique, in that, as a body, we have no relation whatever to the home-office managements, to all of them or to any. The association must be nonpartisan as to them, for the reason that, every one of us representing a different company, we can only have common ground

by leaving individual companies out. Our associations have, therefore, been recognized as standing in a peculiar sense for the common ground shared by all the reputable old-line companies for the cause of life insurance as a whole.

During my momentary absence from the room yesterday the learned actuary from New York, Mr. Dawson, took occasion to make some remarks which, after I returned, I heard himself refer to as a serious charge against our association, including with it, you may say, the members of the Chicago convention and those who have participated in the formation of the Ames bill. It all seemed to be based upon the circular letter to our members which I hold in my hand, and I desire first to thank Mr. Dawson for having said of it: "It is a document which I think you"—this committee—"can not very properly decline to take official notice of." We had sent copies of the letter to the committee members individually, and we are thankful to Mr. Dawson for making a little more sure that it would be read.

He speaks of it from two or three standpoints, but I should not go to any great length in answering the charges, except that the subject-matter with which they are interwoven forms really a part of the substantive discussion before this committee. It constitutes on the part of the gentleman an argument why the ideals and conclusions of the Armstrong committee should be followed or considered by Congress rather than those that came from Chicago. There, evidently, was the head and forefront of the offending of the letter.

It pointed out what various prominent persons had said, and what the conditions showed, as favoring Chicago rather than New York. It pointed out, in the first place, that the Armstrong committee's bills were prepared under abnormally excited and hasty conditions. On that I need say nothing more than what has been already heard in this presence. No more, indeed, than was said by the gentleman himself, who spoke of laboring night and day and Sundays, also, in intolerable toil. It is not under those conditions that calm, judicious legislation is ordinarily brought forth. Also what we heard from one of the actuaries who was called in by the Armstrong committee during its final consideration of those bills, and who said that they were told: "This is an emergency that must be met" and out of which there must be hardships upon the innocent companies. That was testified before you as being repeatedly said. Those are the conditions and it is idle to deny it. It is perfectly patent on the face of the thing.

The Armstrong committee has done a great service, as I am very glad to have this opportunity of saying, and as I have said before our associations in various parts of the country repeatedly; no longer ago than Saturday night, before the meeting of our association at Louisville, in the presence of the insurance commissioner and leading citizens, saying that every insurance man in the country should get down on his knees and thank God for that investigation. I feel that from the bottom of my heart. As an investigation it was a remarkable success. As investigators it is doubtful if any such body has ever done more remarkable work. But when they come to legislate, then, instead of being in the position of a judicial, legislative mind, they are in the condition of a judicial sentencing mind. It

is like a court that has just gone through a disgusting criminal case and is considering how to punish the offenders. That is not the frame of mind in which to get up a model code. And that frame of mind, I believe, has had great influence upon the results of their work.

The word "conspiracy" was repeatedly applied, and very strongly. Without taking time to quote the language at all, it being said that this was a conspiracy, of which the conspirators were the managers of the national association, to undo the work of the Armstrong committee, to "kick its bills out" next year. Let me say very plainly that of these charges there was no scintilla of evidence adduced with the exception of this letter; not a single substantive fact was added nor was any fact here stated controverted. The whole matter of which the gentleman spoke was a matter of deduction and inference, which any one member of the committee I believe to be quite as capable of making for himself as the gentleman who spoke. And if it were merely a matter of the accusations against us, I would be perfectly content to leave it at once by placing the letter in everyone's hands and asking him to judge for himself. But the matter does also take in a comparison of the respective points of view and ideals of legislation which is germane to this discussion, and for that reason I shall proceed a little.

That the Armstrong bills were not regarded as final by themselves is best shown by the comment of Chairman Hughes the next morning after they were introduced: "It is well to remember that the legislature sits at Albany every year to correct mistakes." That was after saying that he believed the bills were about as good as they could be made now, and so on. The first idea that I saw in print anywhere that you were to look to the next legislature of New York for revision was from the lips of the eminent counsel. Then, in an official message from the governor of Massachusetts to his legislature, of which I have quoted a small part, occurs this very remarkable paragraph from the governor of a neighboring State:

"I am informed that no State except New York has attempted to act in reliance of this report [referring to the report of the national insurance convention to come in September] and those persons best qualified to express an opinion upon the conditions of legislation in that State believe that the bills pending in the New York legislature may, if passed now, require revision next year.

In like manner this circular letter of ours quotes the strongly contrasting ideals and principles set forth in the recommendations of the Chicago committee on March 22. Although the Armstrong bills were pending, and their report and recommendations had been before the country for weeks, it was upon the Chicago principles that the Ames bill was founded. And that bill was recommended to the consideration of the Congress by the President of the United States with a very strong expression of his—

entire faith in the ripe judgment and single-minded purpose of the insurance convention which met at Chicago and of the committee of that convention which formulated the measure herein advocated.

Gentlemen, that is the conspiracy—our calling the attention of the country at large—that is, of our membership throughout the country, to the fact that those things had been said by those men, and that they indicated that the States generally were not so likely to follow New York as to follow Chicago. I was also able to say, with no

small measure of pride, that we had communicated—and I believe agreeably—to the Chicago committee and to the President not only that our association was glad to express its hearty concurrence with the main principles that had been advocated by them, but also that we believed that our membership throughout the country would prove to be no small factor in helping to bring the press and the public and the legislators to agree with them. This “conspiracy” to spread the knowledge of what I have just read I cheerfully admit, barring the name.

One other matter that the gentleman referred to particularly, and that impliedly formed a basis of accusation, was the thought that seemed to be in his mind that we favored the preliminary term plan over and above the select and ultimate plan with which his name has been so intimately connected.

Mr. ALEXANDER. Before you go on to that point, I wish you would give to the committee briefly, if you will, the objections which you have to the Armstrong legislation. I mean in a brief, general way.

Mr. SCOVEL. I was coming to that in a moment, Mr. Alexander.

Mr. ALEXANDER. I beg pardon, then. Just go ahead.

Mr. SCOVEL. The fundamental principles are the things I object to.

Now, as to these two methods of valuing policies. Our association has always endeavored to keep within the lines that we are most familiar with, and upon a purely actuarial question has never, so far as I know, expressed any opinion. Our letter carefully avoids disapproval of either method. While recording that the committee “prefers” one to the other, we refer to both alike as methods of “recognizing the public need for new and small companies.” We welcome the recognition of that need. As to these two methods, both are, in my own opinion, practicable and possible, and would, so far as we are concerned, be left entirely to the actuaries. But we do believe in urging, and believe that it is high time to urge that provision be made all through this country for the proper formation of good, honest, old-line life insurance companies.

Mr. STERLING. How is it possible to organize new companies successfully in competition with those now in existence?

Mr. SCOVEL. The effect of such competition—particularly in the district where the new company starts and has the advantage of being a local company with the prestige of its directors and so on—is not anything like as vital or conclusive as is apt to be thought. It is unquestionably an advantage to the older and larger companies to be able to point to these facts with a certain class of people. On the other hand—and this is a thing I wish I could make every member of this committee understand—this life insurance proposition is an individual thing, man to man. People sit up and read articles and have discussions about it in a broad general way; but in actual practice it is just as individual as taking a wife; it is just as individual as being converted to grace. In each case an individual man has got to be acted upon by points that attract him, under the persuasive influence of a person who himself is attractive to him. That is what writes insurance, and that is the only thing that ever did write insurance or ever will as long as human nature remains the same. And so it is that the agents of a small new company can start out in the neighborhood, taking one man at a time, and convince him that he

individually needs insurance and get him to act now instead of procrastinating. That is the vital thing in every case. Company figures and policy details are and ought to be secondary points as a rule. When these points are dwelt on and comparative figures urged by rival agents, the man commonly loses that vital impulse to act now. That vital impulse is created chiefly by the agent's personal force, whether he represents a small new company or a large old one. Direct competition and comparison are absent in most cases—fortunately for the applicant. I think there has been a great deal of mistaken talk in regard to the desirability of laying down, side by side, company figures or contracts or dividend estimates and such things. I do not think that they are desirable in the interest of the public or the policy holders, if we can in any other way secure honesty and economy ; and I think we ought to be able to do so.

Mr. STERLING. The old companies are pretty likely to get the agents, though, are they not?

Mr. SCOVEL. Unquestionably it is a difficult thing to establish a new company, but it is being done here and there, and could be done more generally under proper legislation for that purpose. I am glad to be able to say to you that in our own city of Pittsburg three years ago there started out the Pittsburg Life and Trust Company, founded with admirable men at the head, men that we all knew and respected ; and it fell to my lot officially to extend a welcome to them on behalf of our local association. I think it was probably the first time that an official welcome was extended to a new home company by its competitors. We were glad to have those men held up before the people of Pittsburg as a personification, so to speak, of the dignity of insurance and its success and all that. Every bit of good competition and honest competition in the field helps convert more people and to spread the cause of insurance. We have only begun to insure the world. It is not like business houses competing to get full share in supplying a regular existing demand. The demand has to be created, or at least awakened, in each individual case. Although the word has been ridiculed in this connection, it is a "missionary" movement as yet, with a very much larger number of unconverted than converted. It would be very foolish for the different churches to get to wrangling over the few native converts when there are whole fields full of those that have not been converted at all, or even preached to at all. That is, roughly, my idea about the relation of the companies in that connection ; and we believe that new and sound companies should be organized, and that legislatures should recognize that public need.

The special thing that I wanted to speak about, and that brings me more closely to what Mr. Alexander was asking, is this: Mr. Dawson said that in the beginning of the work upon the bills after the investigation he was absolutely opposed to the various limitations and restrictions proposed or talked about, and that he remained opposed to all except one of them, namely, the restriction of expenses for procuring new business, as you remember. I believe he said also that he became a somewhat lukewarm convert to the standard policy idea. He was converted to the necessity of limiting by law the expense of new business, and he was led to believe that it was not sufficient to rely on publicity and allow the usual conditions that govern competition to bring about the right result, but that it should be fixed by

ironclad law, because, as he said, there was the greatest carnival of rebating going on, which he blamed wholly on the agents and their associations. He used the name of the association as arch rebaters, and spoke of the association as individuals who did not want the right thing done, and so on. He said, lumping us all up, that it was evident that these people did not want to be good, and that they would have to be compelled to be good. Even though he did not believe that that limitation was a desirable provision in a permanent model code, yet he had come to believe it to be necessary in the present emergency.

Now, as to that. I am glad to have that question raised; very glad. The majority of the rebating and evil practices, the worst part of them, have commonly been done by brokers and by men going hither and thither and yon—not the permanent men and those attached to general agencies who constitute the real permanent force. The majority of those have not been members of our association.

Let me admit with perfect frankness that there have been quite a number of members of our association, a very large number, in the different cities who have been pretty poor Christians, as there are in most churches or other bodies of the kind; but just in so far as they were guilty of those practices, just in so far did they fall short of being good association men—fall short of the standards which we have endeavored to uphold, and have not only talked about but endeavored to inculcate and bring about in actual practice.

For twenty-three years the associations have been fighting hard against those evils. In twenty-four or twenty-five States—over twenty—there are antirebate laws. In almost every case the law was enacted at the instance, and commonly at the expense, of the local association. It was so, I know personally, in Pennsylvania, with the two associations united—Pittsburg and Philadelphia—in obtaining the original law; and the Pittsburg association, at its own expense, some years later obtained the additional amendment making it a penal offense to accept a rebate, as well as to give it. That has been done, as I say, in many States for many years. Within the last six or eight months, when it commenced to be seen that the conditions were changing in the “high-pressure” companies, chiefly responsible for rebating, there has been a very distinct revival of our direct activity to stamp out those evils outside of the slow process of education, which we have mostly relied upon, though we have actually prosecuted a number of cases under those laws, at our own expense, in past years. Recently, I say, many associations have done just as the Pittsburg association did in December—made an antirebate agreement among themselves, individually, and provided for its rigid enforcement. Pittsburg raised a subscription of \$3,000, which was ample to start with, and publicly announced that we had retained a criminal lawyer—such as Mr. Jerome is in New York, for instance—to prosecute any offenders. And rebating has practically stopped in Pittsburg. New York is doing the same thing, and all over the country it is being done, and it is succeeding. Why? And why did it not succeed before?

You can understand that better when I tell you that in 1895 the national association, through its then president, Mr. Plummer, visited and proposed to nearly all the companies of the country, by a visit to each separate home office, an antirebate compact among the companies. Such compact was formed by twenty-five companies in

the fall of 1895, with ex-Speaker Thomas B. Reed as the referee, by whom cases should be decided. That was not mere talk on our part. The underwriters meant business. The companies did not. That is, some of them did not. That is the frank reason why it did not succeed. It was acceded to, but not in good faith. I stand here and say that, meaning to be responsible for the utterance—on information and belief; I was not personally present, but that is beyond question the fact, and it is confirmed by much else known to me. Various companies that would say: "No, you must not rebate," would yet make such arrangements as practically amounted to a compulsion upon their agents to rebate. In other words, they would require their agents to write such an amount of business in order to keep their jobs, or to get a certain big bonus, that no man could sell it for 100 cents on the dollar within the time.

Mr. ALEXANDER. The Armstrong law covers that, does it?

Mr. SCOVEL. The Armstrong law makes a limitation of first year's expenses which Mr. Dawson thought was necessary, because he said that something of that kind was needed to stop these evils. I am telling you that they are stopping and have been stopping, and that we, whom he said were the arch leaders in those evils, have been for twenty-three years the arch leaders against them. That is what I want to get clear.

Mr. ALEXANDER. Do you not welcome the Armstrong law that will stop it?

Mr. SCOVEL. No; because it ought not to be stopped by amputation at the neck. It can be stopped without entailing all the evils that are threatened—not only threatened but absolutely confronting us, through the undue limitation on a false principle that the Armstrong bill makes. That is my opinion. Of that I want to speak just a moment later, because I wish to say also, right in connection with what the national association did there, that in 1899 we followed up that action with the resolution which I shall quote—remembering, now, that it was charged that we were the ones who stood for the high first-year commissions which have been thus misused for rebating. That is the very common idea in people's minds about the agent, that he is out to get the highest commissions that he can from the company. This is the resolution adopted in 1899 at the Buffalo convention of the national association, by the most representative body of insurance agents in the world, I suppose, or in the country at any rate. It was passed after considerable discussion with one adverse vote, and unanimously reaffirmed in 1900:

Resolved, That we, the members of the National Association of Life Underwriters, respectfully urge the companies to consider the advisability of reducing the first year's commissions paid on new business, and increasing the renewal commissions paid, in order that the greatest possible encouragement shall be given to the writing of bona fide business only—

through the lower first year commission—"and its maintenance upon the books of the company"—through the longer and better renewal commission, which is the best way in which to bring about such maintenance.

That is the position the underwriters have stood on, and that thing is all that is needed, and it is being done under the great force of publicity and the demand and desire of the leading men in the field. Having said what I did about the companies before, I am glad to

be able to say now that I believe at this time there is no company but what is in perfect good faith in its desire to stop rebating, and that this evil is in its last gasp. That is my profound conviction, and I believe that that has been brought about—and that is why I go down on my knees in thankfulness for this investigation—by the tremendous upheaval that has taken place. It has had several effects—one in making the companies feel some sense of common cause instead of bitter rivalry; another to dislodge those managements which had not been in good faith—a very important one; and another to make possible an alignment of the companies which had been feebly trying, with jealousies and difficulties in the way, to get together upon these questions. They are getting together, and I believe, gentlemen, that you ought to trust, and that the legislatures of the country ought to trust, something to the general disposition to be honest and straightforward in the management of these great trusts, and to do the right and fair thing, having evidence also that an association as widespread, and becoming more and more influential, such as ours, is committed irrevocably to those policies. That being the only reason why the gentleman who argued before you was in favor of restricting the first year's expenses, we think that there is very good reason for seeing how this actual reform from within is going to work out before adopting a most drastic and severe limitation that will disorganize the agency forces of all the companies doing business in New York, as you have already heard, and into which I do not feel that it is necessary for me to go. That is one principal thing that we object to.

Mr. ALEXANDER. You do not object to that because it is going to stop the rebate business?

Mr. SCOVEL. Oh, no.

Mr. ALEXANDER. You object to it because it will cut down your ability to do business?

Mr. SCOVEL. That is not necessary in order to stop the rebate business, to compel by law all the expenses of all the first year's procurement to be taken out of an arbitrary, inflexible fund, limited in advance to so much in proportion to the estimated business of the year, and this under very peculiar conditions, including limiting the renewals, which is a very false move, in the opinion of the most conservative companies. It is the most conservative companies, those that have been administered with the utmost fidelity, that are most unanimous and emphatic in their belief that longer renewals to agents are good things for the maintenance of the business, and to make the agent in every sense interested in the permanency of the company and the satisfaction of the policy holders.

Mr. Chairman and gentlemen, I think it will probably save time in presenting the principles that have been spoken of for me to read a few paragraphs that put them in somewhat condensed shape from a little talk that I gave in Boston first, just before the Armstrong report even was filed, and before anything was known, so that it has no reference at all to the particular thing, but to the general principles which I believe every thoughtful man in constructive statesmanship ought to have in his mind at this period.

It has been endeavored in the opening paragraphs to show that life insurance is an organism, and the policy holder a living cell in it—not merely a contractual relationship, as was mentioned this morn-

ing, and from which I absolutely dissent. The policy holder is an integral part, and many of the misconceptions have grown out of this matter in considering it as a dealing between opposite parties, instead of being a cooperation among parties with reciprocal rights, and with duties as well as rights. I think much of the false thinking of to-day is due to that fundamentally wrong basis.

I am speaking, then, of the various forms of cooperation that we roughly class together as "business." I believe that—

Life insurance stands preeminent among them, no less for the scientific solidity of its structure than for the far-reaching values, material and spiritual, which it yields to the family and the community. Although its existence has been brief as compared with the hoary age of church or state, life insurance has already established its right to rank with them as one of the three main institutions that promote the welfare and progress of mankind.

I would like to have an hour to defend that thesis.

Being yet in its early years, with broad fields of usefulness yet to explore and develop—fields, some of which have long been worked under compulsory laws by foreign, paternal governments—life insurance in America is urged on by an overwhelming responsibility to the future of the race—to proselyte, expand, unfold, to preach its gospel to every creature.

My interest in life insurance dates from the time when, as a law student in Berlin, twenty odd years ago, I daily read the debates in the Reichstag on the founding of the German industrial insurance system.

Mr. STERLING. That is a government insurance company?

Mr. SCOVEL. Not a company.

Mr. STERLING. But government insurance?

Mr. SCOVEL. It is compulsory government insurance, which I hope and expect never to see in America. It has got to be worked out by individual initiative in this country and can not be worked out if we are cribbed, cabined, and confined as to our present fields, without attempting to begin to go into the wider fields. So I say insurance is in its earlier years, in its infancy, and with broad fields of usefulness yet to develop, for which our great population is wholly dependent upon life-insurance men and can not look to a paternal government. Under those conditions, I say:

Life insurance in America is urged on by an overwhelming responsibility to the future of the race to proselyte, expand, unfold, to preach its gospel to every creature. This great duty and its vast importance to humanity need to be emphasized, because there is just now a general and very false conception that the primal duty of life insurance is to pay dividends to the policy holders already in. In many quarters it seems to be considered wrong in principle to use, or even borrow, the money of present policy holders to bring in others.

Gentlemen, this misconception is nearly two thousand years behind the times. It belongs to Paganism, not to the Christian era. To place the return of profits to present policy holders above the duty to propagate and proselyte, to make the ratio of dividends the prime test of company excellence, is just as though one were to make the prime test of worthy manhood the amount of money one had laid by in a savings bank, thereby rating the miserly bachelor above the father struggling to maintain his family.

No, sirs; fatherhood, motherhood are the supreme tests of manhood and womanhood; and the supreme test of a life-insurance management is, how successfully does it press forward its mission of insuring lives? It is distinctly a secondary matter how economically it does its work, and how much it has left over to return in dividends. The first function of the common fund is to extend the organic life. Only after that first function is working to its normal limit can there be said to be anything left over to be returned as margins or dividends.

Do not misunderstand me. I do not belittle economy. Quite the contrary. The more fully we comprehend the true mission of life insurance the more must we decry any waste of its resources, the more are we indignant over any abuses committed in its workings. The unworthy father who indulges himself while neglecting his children; the disciple who betrays his Master for 30 pieces of silver, are types that we detest more strongly the more fully we realize the sacred duties thus violated.

We admit frankly that there have been evils and abuses and a general tendency toward wastefulness. They should be and are being corrected. But it is always so in the working out of the great natural instinct of propagation. Nature herself is amazingly prodigal, seemingly wasteful, in all her own means for insuring the perpetuation of the species; and wherever a man's free will has entered into the problem he has been free to use her beneficent provisions in his own way, often with evil results.

We realize fully that just as man's instinct to propagate has always been the source of great evils and abuses, so also the selfish lust for power and size has, in recent years, led some life-insurance managements to stimulate strongly the production of "business" that was not growth, but disease—not flesh, but dropsy; "business" that had to be almost given away and that swelled the apparent total of first-year expenses by large amounts of fictitious commissions; "business" that, after the first year, left nothing on the books but a long train of evils—

and one of the worst of them is that all kinds of figures and ratios and percentages that are being considered by legislatures at this day have been muddled up by this mass of stuff that ought not to have been there at all.

The ACTING CHAIRMAN. When you say "fictitious commissions" what do you mean?

Mr. SCOVEL. I mean the rebates, the money the policy holder did not pay and the agent did not get, but which appears on the books as commissions retained by the agent—a mere fiction. Sometimes the agent would be given a salary to live on and get business for 10 per cent of the premium, which amount he turns over to the company, and the company pays him his salary to go around and do it. That is an extreme instance, of course.

The ACTING CHAIRMAN. Ten per cent to the company, and the company had to insure those lives?

Mr. SCOVEL. The mortality the first year is very slight.

The ACTING CHAIRMAN. But more than 10 per cent?

Mr. SCOVEL. Not of the whole premium, I believe; not much more. I do not want to be betrayed into attempting actuarial calculations.

The ACTING CHAIRMAN. The evidence has been given, or the statement has been made that 30 per cent of the first premium was loaded and that the other 70 per cent was supposed to represent risks, etc., and that 50 per cent of that was saved in the first year. So that that would leave about 35 per cent of the premium that was necessary to carry that first year's business, or something like that. You say that only 10 per cent was collected?

Mr. SCOVEL. Sometimes; yes, sir. As I say, that was an extreme instance, and not by any means prevalent; but rebates of 50 to 60 per cent were not uncommon. I am speaking here in the main of the larger policies. But it is those large policies that make the big showing in the totals. There would be only a few people, perhaps, who would get any rebates, but they would be for policies of \$50,000, \$100,000, or \$150,000 or something like that. The evil might not be very widespread among the community, and yet when you come to figure the totals of the amounts shown and the totals of the amounts lapses, and all those things upon which these various deductions are

being made, these large fictions have introduced a very great variation from the facts.

The ACTING CHAIRMAN. Let us get down to the particular question that Mr. Alexander put: Why do we not need the restriction in the Armstrong bill to prevent abuses like those?

Mr. SCOVEL. The Underwriters' Association has and is standing for the remedying of those conditions, and is at present doing it.

The ACTING CHAIRMAN. True. But will not the Armstrong bill help remedying them? Will not the provision that limits the expenses of the first year help prevent that kind of thing from occurring again?

Mr. SCOVEL. Yes, sir; as you would prevent trouble with a toe by amputation at the knee; but it may not be necessary, unless gangrene had set in.

The ACTING CHAIRMAN. How much do you think would amount to amputation—a limit of, say, 30 per cent?

Mr. SCOVEL. I do not think the company could operate on 30 per cent.

The ACTING CHAIRMAN. Could you limit the whole expenses to 50?

Mr. SCOVEL. I do not think they could on that.

Mr. ALEXANDER. What does the Armstrong law hold?

Mr. SCOVEL. I do not pretend to be up on the actuarial figures.

The ACTING CHAIRMAN. You think that holding it to 60 per cent of the first year would be amputation, destroying the value of the business?

Mr. SCOVEL. I believe it would very largely; yes; to make 60 per cent cover the total expenses that are supposed to be attributable to first-year business. I am not prepared at all to announce an actuarial conclusion on these matters, but I think this is the principle: That you ought not to say any arbitrary period of months is the test of when a new member has balanced his account of value with the organism itself any more than you can say exactly at what year a child has begun to be worth having been born and begun to take his place as a productive and valuable factor in the human family in the next generation. It is just like the growth and continuation of the race, this continual going on of the organism of life insurance.

The ACTING CHAIRMAN. I am trying to get at what is a fair part of the premiums to be spent in expenses.

Mr. SCOVEL. Such an amount, sir, as will be reimbursed in a reasonable time. That is as far as I could say. Probably not in the first year.

The ACTING CHAIRMAN. What do the agents usually get for subsequent business—what commission?

Mr. SCOVEL. Seven and a half per cent is the prevailing renewal.

The ACTING CHAIRMAN. I am just giving this as an example: Suppose 30 per cent throughout was given to the agent; would not he be just as likely to get new business?

Mr. SCOVEL. For the general agent; yes, sir. But that would require a readjustment of the financing, because the solicitor has to be maintained at the beginning, during the year that he is producing the business, and until he has gone on for some years he would not have a living income out of renewals, of course.

The ACTING CHAIRMAN. There are many people doing business as real-estate brokers and as agents who do mostly renting, and who are

satisfied with 5 per cent or 10 per cent commission on rents, and small rents at that, with constant work of solicitation, just like that of life-insurance agents. As I understand it, the object of the Armstrong bill was to lower the amount which is applicable to commissions in the beginning—expenses in the beginning—leaving it quite large afterwards, if necessary.

Mr. SCOVEL. No, sir.

The ACTING CHAIRMAN. Leaving renewal business to take care of itself.

Mr. SCOVEL. Afterwards they have limited it to $7\frac{1}{2}$, which is perhaps the lowest ordinary practice, and limiting it to only nine years.

The ACTING CHAIRMAN. I am not speaking of that bill as being a model, but only about the bill which would do what you seem to protest against, which would make each premium pay for itself.

Mr. SCOVEL. I do not think that that is a necessary principle at all.

The ACTING CHAIRMAN. Would it not be a valuable one if enough commission were given to make it pay?

Mr. SCOVEL. I would not say so as to that principle. There are whole varieties of principles involved. As to the provision for commissions, I do not want to be understood as pretending to get right down to the exact figures upon which those things can be worked out. They would be very different under different policies and other conditions.

The ACTING CHAIRMAN. I am not favoring always strict legislation for doing things that can better be done by arrangement within the companies; but I am asking whether you do not think that some arrangement could be adopted, whether by law or among the companies, which would make all the premiums pay for themselves from the beginning instead of charging the expense of new business upon the old policy holders? In spite of all we have heard of the perpetuation of the human race, and each policy holder being a cell in the organism, each one is not so much interested in the growth of life insurance as he is in his own policy.

Mr. SCOVEL. But he is only paying his debt. In order to bring him in, the money of those preceding him had to be used for a time and then reimbursed as his policy pays back its share. That is the way it has been going on and goes on all the time. Until within a few months the heresy was never heard that it was a matter of principle that the first year of a new policy holder's money should cover his total expense and also the general expense of procurement of business or making propaganda in the community of this important public interest. I do not think it is to the public interest that the principle should be allowed to go unprotested against.

Mr. ALEXANDER. As I understand, then, you would not have any limitation to expense?

Mr. SCOVEL. By law, no, sir.

Mr. ALEXANDER. What is your next objection to the Armstrong legislation?

Mr. SCOVEL. Some of it will come in a moment, in the line of my statement.

Mr. DE ARMOND. I want to ask you one question on that. Is not this policy of putting no limitation upon the first year's expenses in the interest of the large existing companies, rather than the smaller or new companies?

Mr. SCOVEL. I think not, sir. I think that, as a matter of fact, the limitations under which an old company may simply quietly sit down, dismiss most of its agents and take in the premiums as they come, and do but little new business, and be perfectly in clover, will throttle the small company—that is, if you are considering the interests of the company as a management, if you are thinking of the managers of the company and its being a mere business concern. If you are thinking of the interests of the new policy holders—the future policy holders, of the people who ought to have life insurance—the point of view is entirely different.

Mr. DE ARMOND. Do you know of any large, old, powerful company that is trying to get its clover in that way?

Mr. SCOVEL. I do not; but I should not be surprised at all, when men are coming to be officers of companies whose training is that of financiers and business men rather than that of insurance men, that they might welcome an excuse from the law to do that, to say: "It is not deemed desirable that the company should do much in the way of insuring. If we take care of the policy holders we have at economical rates, we are following out the policy indicated by these legislative bodies." And they would have quite a justification in saying so. And it would be a great calamity to the country, except in so far as you provide fully in other ways, that for many years have been artificially closed for the formation and operation of new companies. That I heartily believe in, and I believe in the working of all good companies, new and old, together.

Mr. STERLING. I think the New York law, if I understand it correctly, puts a limitation on the amount of business the New York companies can do each year. Will that result in benefit to newly organized companies?

Mr. SCOVEL. Possibly.

Mr. STERLING. Or infant companies?

Mr. SCOVEL. I should not be surprised if it would in some respects; but it will do so, in my opinion, to the detriment of the public, because I think there is plenty of room for the big companies that you speak of to write all the business it is possible for them to write, and yet have plenty of room for all the new companies that are likely to be organized, and still the field of life insurance would not by any means be filled. For thirty years or so there has not been a company organized that amounted to anything particularly. That is a most extraordinary thing. What would you think if all the great growth of this country's banking interests, for instance, were today in the hands of banks that had been established for thirty years, and that all over the country there had been no new banks for thirty years? It is most extraordinary that the brains and capital of this enterprising American people have been artificially kept from entering the life insurance business. I want to say, however, that I think during this experimental period (as it has been largely since the panic of 1873 until now) that it was fortunate that the development was in good, strong hands. That had its advantages during the formative period. But the time has now come to open the doors to new companies upon a safe, sound basis.

The ACTING CHAIRMAN. Is not one of the reasons that new companies did not come in that the old companies had a reserve of old

premiums, paying the money to get new business, while the new company had to pay the expenses out of new premiums?

Mr. SCOVEL. Yes; to a large extent, but—

The ACTING CHAIRMAN. Then, if you force the old companies to collect evenly from all their policies, and not pay so much money on new policies, the new companies would have had a fair chance?

Mr. SCOVEL. I am afraid I am in danger of being misunderstood. When I have said that I do not believe in limiting expenses directly and rigidly by law, confining them to an exact part of the first premium, do not misunderstand me as saying that there should be no lessening of the extravagance of the recent past.

The ACTING CHAIRMAN. You spoke as if it was missionary work, and to be carried on like the work of the Christian Church in making converts instead of being done for the benefit of each particular heathen.

Mr. SCOVEL. I did not want to have my imagery put too strongly, Mr. Chairman.

The ACTING CHAIRMAN. No. Imagery is a dangerous thing sometimes. I think you had better get down to what you think would be the right thing, and what the effect of each part of this bill would be.

Mr. SCOVEL. Very well. I am trying to answer the questions as I can, with regard to these points.

All I mean to say is, so far as the general principles are concerned, that we do not think it is necessary or right to announce as a principle, and to found legislation upon that principle, that a new policy holder must, in his first year, pay for himself, and also pay for the total cost of propaganda for the year, but that the question should be what is the reasonable value of that policy to the company as a whole, and the reasonable time within which it will make up its procurement cost. It might be in six months, it might be in thirteen months, or it might be in eighteen months, or more. It would depend on the different kinds of policies, and it would certainly be very different in different kinds and classes of companies. The inflexibility of the limit and the falsity, as I see it, of the principle, are the things that I object to in getting at the problem in that way.

Mr. DE ARMOND. How would you get at it?

Mr. SCOVEL. Chiefly by publicity; by the publicity that is recommended here in this bill, and to which I would add something more, which I may just as well come to at once.

Mr. DE ARMOND. How would you do it by publicity? If it is a good policy, as you seem to advocate, to use a very large part of the first year's premium in this propagation business, how would the publication of it correct it? And if it is a bad policy, why rest its correction upon the matter of publicity and the hope that the people would profit by that publicity?

Mr. SCOVEL. Because I do not look at the business, and I do not think that the public at large in its sane mind or that this committee in its calm thought will look at the business and its management, as a whole, as things to be legislated about in an atmosphere of suspicion; and that is the atmosphere in which the legislating has been done. I know it has been our own fault—that is, it has been the fault of those who, within the companies, have justified that suspicion. But that fault has been but a small part of the great record of life insurance and a temporary thing. It has been cured largely,

and I trust finally. So I believe it is the part of wisdom, in the interest of a business of such magnitude and public importance as this, to make haste slowly, and to amputate the finger first before going up to the next joint unless you have very good reason to believe that gangrene has gone into the arm; and I do not believe it has. There are many things in the situation to-day that are wholly novel which bear upon these questions of limitation and restriction.

Mr. DE ARMOND. Do you think that expenses have been too large in getting business?

Mr. SCOVEL. I do.

Mr. DE ARMOND. Yet you think there should not be anything in a model bill that would force a reduction of them?

Mr. SCOVEL. No; I do not think the business needs to be placed under guardianship.

Mr. DE ARMOND. Is not your admission that there has been too much expended equivalent to a statement that it should have been under guardianship when that was expended?

Mr. SCOVEL. No, sir; I do not think so. I would say exactly the same in regard to our great Pittsburg mills. A Frenchman comes over here and he holds up his hands in horror at the wastefulness with which coal and other materials are used, because it is not worth while to take the trouble to save it as compared with the cost. We have been through a period of tremendous pioneer growth in insurance, a time in which other problems were the main ones. But now I think the time has come to study economies more than ever before; and I hail the day.

Mr. DE ARMOND. But not to put any of that into model legislation?

Mr. SCOVEL. No; I do not think it is necessary. I would certainly think it was necessary if, after the next year, or two years at the outside, you found that the effect of this great cataclysm had not remedied matters. If then you found evil conditions persisting, I would say, "God speed you." And I would come here and ask for such legislation. That is our attitude, in so many words—that it is not right or wise to begin by enacting the most drastic measures when you know that they will do harm, and that these extreme measures should be resorted to only when it is found that the evil they are intended to correct can not be remedied otherwise. I believe that is the general idea of Anglo-Saxon legislation.

Mr. STERLING. If you have no objection, I would like to have you go back to the subject I spoke to you about: Do you remember what the limitation fixed by the New York law is on the amount of business that the company shall do in a year?

Mr. SCOVEL. Yes; I am glad that you mentioned that, for I have been amazed in the talk upon that subject that they seem to confuse the symptom with the evil. The top limit is \$150,000,000.

Mr. STERLING. Will that have a tendency to reduce, or at least will it have a tendency to stop, the immense accumulation of vast amounts of money in the hands of these companies?

Mr. SCOVEL. That is just the question.

Mr. STERLING. Just another question, which you can cover at the same time: Would the New York companies continue to grow under this limitation, or is that fixed as about the amount of new business that they can do and maintain the total business at its present status?

That is, does about that much business go off of their books each year?

Mr. SCOVEL. More than that has gone off at times, but the new conditions are likely to make a great difference in all these problems. It will be a very difficult thing to judge from the past as to the exact details and to apply the figures of the past to just such a matter as the lapse rate you ask about. With the difference in agency handling and in handling of the whole organism there come new problems of all kinds. It is a very complex, interlocking affair. But the real point in question is not the company's growth in insurance, but the menace of such enormous funds piling up in its hands. Take the largest of the companies, that wrote last year \$300,000,000, and you ask: Will a limitation of its business to \$150,000,000 stop the increasing accumulation of these vast funds? No, sir. If the limitation was that it should not write another dollar of new business its funds, which now are over \$400,000,000, will go on increasing for nearly ten years, I am told by the actuaries, to about \$1,000,000,000, through the accretion of interest on the reserve and payment of the premiums on existing policies. For that time, on the business already on the books, the curve will go up to about \$1,000,000,000 before the increasing age of that whole body of policy holders will begin to draw upon that fund, their premiums then being insufficient and the fund having to make up the deficit to carry them on. So that the very evil that it sought to be cured is not touched. They are vainly striving to cure the evil of piling up money by stopping the good work of insuring lives.

Mr. STERLING. It is appalling to me—the proposition laid down by Senator Bulkeley this morning—that the insurance companies of this country would control the money market and the business of the country inside of twenty-five years.

Mr. SCOVEL. I think so, too.

Mr. NEVIN. And it looks as if it were true.

Mr. STERLING. Yes; and it is an appalling proposition. Is it not better that the Government should do something now, whether you call it paternalism, or whatever it is, to stop this immense tendency toward accumulation?

Mr. SCOVEL. Yes; I agree with you; and I have on my memorandum here a suggestion that I have not heard mentioned at all in recent discussions, and which I would like this committee to consider in the effort to avert the future danger of the accumulation of great funds; not of great masses of life insurance, which is nothing but good to the community, but the great danger of overwhelmingly enormous funds and the possibility of their misapplication. I think that is one of the serious questions.

Mr. ALEXANDER. Can you tell us how to stop it?

Mr. SCOVEL. No, sir. I can tell you one suggestion that has been made that I am surprised has not been followed up at all, namely, it has been suggested in one of the insurance journals six or eight months ago that the difficulty might be met by what it called a plan of "trusteed units." Say that a given sum, as \$50,000,000, should be considered a unit; that when any company's funds were a little more than that, then \$50,000,000 should be segregated into the hands of a distinct small board of trustees, appointed with the utmost safe-

guards that can be devised (through aid of court, legislature, public authority, anything and everything), for the purpose of having that trust absolutely independent of control by the central insurance management, but charged simply and only with the duty of investing that money—a naked, dry trust, with no active duties but investing and accounting.

Mr. ALEXANDER. Making it a mere savings bank?

Mr. SCOVEL. Making each unit a sectional savings bank.

Mr. ALEXANDER. Under separate boards of trustees?

Mr. SCOVEL. Yes, sir; safeguarded, and the funds to go back through the main coffer only as required for immediate distribution under the policies. In some such way you could strictly limit the funds under control of the insurance management, and yet let it go on writing all the more insurance; and the more they wrote, the better. It is a great crime when a company has accumulated a great reputation, a magnificent agency force, and all the equipment to give hundreds of thousands of families the advantages of insurance, to shut it off. That should not be done without grave need; and it does not touch the problem, because, though you shut the new insurance off entirely, the fund will grow to \$1,000,000,000 in that one company. Indeed, the problem is here already, with three companies having \$400,000,000 or so apiece, and the control of two of them hanging in the air. This is one of the things that I wanted to bring up as a suggestion on the part of the Underwriters' Association, for the real problem is not being reached by limiting the new insurance.

Mr. DE ARMOND. Do you say that to allow a company to do \$300,000,000 of business a year and continue on for ten years would not put in the possession of that company at the end of the ten years a good deal more money than that company ought to have?

Mr. SCOVEL. Certainly it would.

Mr. DE ARMOND. Then does it not to that extent partially correct that tendency toward the accumulation of vast funds?

Mr. SCOVEL. It does.

Mr. DE ARMOND. Is it not good—that part of it?

Mr. SCOVEL. I think not, because it does not go directly to the evil, and in the roundabout way that it seeks to get at the evil it administers a serious slap to the good. I would try to seek some better, direct method.

Mr. DE ARMOND. But you have not found another way to suggest?

Mr. SCOVEL. I have suggested one idea that is worthy of consideration.

Mr. DE ARMOND. I know; but we are talking about a model bill.

Mr. SCOVEL. That would be a provision for a model bill.

Mr. DE ARMOND. Have you considered the idea sufficiently to recommend it for a model bill?

Mr. SCOVEL. Yes, sir; just exactly the form of its application I have not thought out, or the machinery.

Mr. DE ARMOND. Would not this be the effect: As these giant companies do less business, would not the smaller and relatively safer and more desirable companies do more, and would not they increase in numbers?

Mr. SCOVEL. I am not prepared to say with regard to that, but—

Mr. DE ARMOND. Would not that be the probable result?

Mr. SCOVEL. I think not, because the assumption upon which you would naturally imagine that result to be probable is that there is a relatively given amount of business to be divided among all. There is not. It is a great, virgin forest, and we have only begun to clear a little bit out of the edge.

Mr. DE ARMOND. But the larger the forest the more trees could be cut, probably, by the new axes?

Mr. SCOVEL. I do not know. Perhaps the imagery gets away from me.

Mr. DE ARMOND. Yes; we are apt to get a good ways off in indulging in this imagery. But you talk about its being a large and comparatively a virgin forest, into which the insurance people go. Is there not more progress made by a comparatively large number of comparatively small companies than by a comparatively small number of comparatively large companies?

Mr. SCOVEL. I do not know, Mr. De Armond. That would seem quite a theoretical question in the face of the condition that I have endeavored to describe, which is this: That there is business in abundance for all. That being so, the interest of neither would require any halting of the other. That is my honest opinion, and I am speaking, of course, for all in my capacity here.

Mr. DE ARMOND. Are not these large companies, some of them, so enormous and have they not so much control in the way that Senator Bulkeley suggested, that it is more difficult for the new companies to start up and for the small companies to get along than it would be if the wings of these large companies were clipped to a certain extent?

Mr. SCOVEL. I can not say that I think so; I do not think that would be the way to go about it, even if there was some little element of the kind.

Mr. DE ARMOND. Suppose something were to happen that would eliminate a dozen or twenty of the great life insurance companies of the country, would not the condition of things then be very much better for the starting up of new companies?

Mr. SCOVEL. But how much worse for the public.

Mr. DE ARMOND. I am not talking about its being worse for the public.

Mr. SCOVEL. I am.

Mr. DE ARMOND. Do you mean that the large companies do better by the public than the small companies?

Mr. SCOVEL. They insure people on good, safe insurance; and that is the biggest thing, whether they do it for 1 cent more or \$10 more, or less.

Mr. DE ARMOND. Is not that altogether a relative matter?

Mr. SCOVEL. Yes, sir; but that is the most important, and the others are relatively less.

Mr. DE ARMOND. Suppose a company of \$200,000 capital has \$100,000 insurance; is there any reason why the persons insured in that company are not just as safe as those in a big company having two millions capital and a million insurance?

Mr. SCOVEL. Absolutely. I represent myself one of the small companies. I have been a warm advocate of the formation of new companies and of the safety of the small companies. I spoke a moment ago of the fact that the Chicago committee recognizes the public

need of new and small companies. But I do not think, sir, in order to encourage that which I am heartily in favor of that it is necessary to "clip the wings," as you express it, of the already existing companies which are doing a great public service.

Now, if you please, Mr. Chairman; the underwriters' association desires to say that we urge the passage of such a bill as is here proposed, when properly amended as indicated. We believe, in the first place, that for the District of Columbia it is a wise thing, and the duty of Congress, to provide generally for incorporating and regulating new companies; that there may be new small companies on a proper, honest basis springing up in the District. We believe that the main provisions of this bill are likely to be sufficient to cure the evils (and they could be added to later, if they did not prove sufficient) and that, while curing the evils, they would make the least obstruction and the least disorganization of the effective affirmative force that already is doing this good work in the world; and we would approve especially the provisions for publicity. In this connection I would like to say that, on page 10, where an amendment strikes out section 12, that section should unquestionably, in my opinion, be reinstated, if there is going to be any considerable change introduced in the conditions after January 1, 1907. That provision, you notice, requires a statement separately showing results on the business in force up to December 31, 1906, and then on the business as it is to be done under the new bill. In the Armstrong legislation we regard that particular clause as quite essential to give public knowledge of the preservation of the relative rights of the policy holders of the past under the former régime and of the future policy holders coming under the very new and different conditions that will begin in New York with 1907. I would say, further, in speaking of these provisions—Nos. 11 to 16—

Mr. AMES. You are speaking, now, of one of the sections under the heading "Standard forms of returns of life insurance companies?"

Mr. SCOVEL. Yes.

Mr. AMES. You believe that there should be standard forms provided in a model code?

Mr. SCOVEL. It occurred to me, Mr. Ames, that the use of the word "form" here was probably what led to the misunderstanding apparently in President Bulkeley's mind this morning. The uniform form or blank that is adopted by the Commissioners was what I think he had in mind. This section simply calls for additional information not contained in that usual form. It adds to the annual inquisition of the past some of those points which the Armstrong committee investigated that were not included in these annual inquisitions of the past; and it says that year after year those things must be given publicity as well. That is where, gentlemen, there is a new protection and a new safeguard, the greatest safeguard of all for generally decent and fairly economical management. Of course you can not make men honest by law. There will be abuses by somebody, and money will be stolen. There will be rogues and rascals—though there have been fewer in the insurance business than in almost any other. The law that attempts to make it impossible for a rascal to do a wrong thing with machinery will make it very hard for the engineer to run it at all. I think that is the fundamental difficulty with the attempts that are being made. This provision for publicity that

year by year makes plain to everybody those things in the conduct of each company which the Armstrong committee was bringing out, we desire to advocate on principle; saying, however, that we do not express any opinion as to whether the same results might not be obtained in simpler form. That is an actuarial question of detail, as to which we would hope that the committee would endeavor to work it down so as to inflict the least cost for clerical work and preparation. These elaborate reports entail much labor and expense at best. Yet I regard that full publicity as perhaps the most important feature of the bill.

With that publicity which discovers wrongdoing, and then with the penal sections which define carefully and bring more close the punishment for wrongdoing when discovered, you have got what Anglo-Saxon law has always adopted as the best way to provide for the right conduct of business affairs in everything else; and I believe that that will be enough in life insurance.

I am glad on behalf of the underwriters to urge the passage of the antirebate provision, which we have secured the passage of in many States.

I also desire to say on behalf of the underwriters' association that we approve especially the clause providing for no new assessment organizations and for the proper reorganization of those that desire to enter upon the old-line basis.

Mr. STERLING. You say you oppose the organization of new assessments?

Mr. SCOVEL. Yes, sir. I do not pretend to answer actuarially on this business, but I say this, that in my own experience of only eight or nine years the number of people that I have seen suffering from the failure of those——

Mr. STERLING. I have seen a great many of them benefited from them, too.

Mr. SCOVEL. So have I; and I am not attacking it in toto, but I think it has served its purpose.

Mr. STERLING. It is the poor man's insurance, and I do not think he should be deprived of it. Of course they have got to be conducted honestly.

Mr. SCOVEL. The trouble is that they are bound to come to a point where the original level of premium can not maintain the risk.

Mr. STERLING. In the meantime the policy holder has only paid just what the insurance cost.

Mr. SCOVEL. Yes; but he can get that from the old-line companies upon the term insurance basis. That is one reason why I urge the formation of more companies. One of the things that I think has been wrong in life insurance has been the disposition of many of the old-line companies to turn their backs upon term insurance. I think that is a great public service, which some companies have not been doing, but which it has been their duty to do, and which I hope to see done more fully. That is what should take the place of assessmentism, and that is what is proposed here, to some extent, when these companies can put themselves upon a basis of reserve. And it avoids future disaster to those who wish insurance, to have them put upon a sound basis.

The ACTING CHAIRMAN. The old-line companies can do the term insurance cheaper?

Mr. SCOVEL. No, sir; I do not say they can do it cheaper, but they can do it as cheaply. This does not apply to fraternal, in which the fraternal element should be the principal thing, and in which insurance, if there at all, should be incidental, as sick or burial benefits. I believe in the true fraternal idea, which presents a different phase entirely.

So much for what this bill will do and ought to do inside the District of Columbia. That its effects outside will be eminently desirable is evident. The present need of it has been emphasized, the desirability of uniformity of legislation at a time when legislation is more than usually likely to be hasty or ill-advised or prejudiced and when such legislation is going to be enacted or brought up before the legislatures. For Congress to take the lead with a model code would be a good thing at present. In like manner, on through the years, it would be a good thing if Congress should authorize the establishment of a bureau here which would have the right, upon request and under proper terms, to make examinations at the request of the commissioners elsewhere. We think that the erecting of an authoritative and dignified examining bureau, ready to do such service as a part of its work in the District of Columbia, would be an eminently good thing and would tend to do away with some of the burdens and evils of the past.

I also think that in that connection it is well for the committee to consider the provisions of the bill that give this bureau special relation to the examination and deposit of alien companies entering the United States. As to them a bureau in the District of Columbia would have some very particular advantages, advantages both in dealing with that which was abroad, and advantages also in holding funds as trustee not only for citizens of the District of Columbia, but for citizens of the United States generally.

I would suggest with diffidence—considering the question of whether this bill is to be purely a municipal measure or a national, Federal measure—the possibility of extending some of these provisions to the Territories and insular possessions. This could be done, certainly, with the antirebate and assessment sections; and I think, no doubt, a few others could readily be made to apply definitely to the Territories and insular possessions, which would be a proper protection of their inhabitants against the same evils that we are talking about here.

The ACTING CHAIRMAN. Would it be safe to say simply that no company not authorized to do business in the District of Columbia should do business in the Territories? Would that be safe?

Mr. SCOVEL. Hardly. There would be local companies which should be encouraged that would not probably come clear over to the District of Columbia.

The ACTING CHAIRMAN. Then would it be safe to say that no company should do business in the Territories which was not authorized either by Territorial law or by being authorized to do business in the District of Columbia?

Mr. SCOVEL. I should think, at first blush, that something on that line would seem to be possible, without having to erect at each island an elaborate investigating bureau.

The ACTING CHAIRMAN. It would be impossible to erect a bureau for each Territory.

Mr. SCOVEL. Yes; that is why I say that something like that might be possible—as to only so much of the bill as could be applicable without the machinery, which I can see would be too expensive and not worth while to establish in each Territory and insular possession. But it can be made a strictly Federal measure if desired by this committee. The section forbidding political contributions is a thing that goes outside of a mere insurance code, applying to other corporations as it does. So I thought I could see various elements through which, if the committee did not care to trouble Congress with a mere municipal measure at this time, the bill might be given a more general importance and a direct application to the Territories and insular possessions—all of which might help as a make-weight toward its passage and be at the same time directly in the line of the duty of Congress to legislate wisely for these possessions as well as for the District of Columbia.

Finally, and without any argument on the subject, I wish to say that we would be glad if four points were eliminated or changed in the bill—points of consequence: First, the matter of limiting contingency reserve. That appears in the bill. It did not appear in the report of the Chicago committee. That report specified the various things that the Armstrong committee had limited, and after discussing them it refrained from approving any of them, including that special limiting of contingency reserve.

Mr. STERLING. That is, the reserve over and above the legal reserve?

Mr. SCOVEL. It is margin; it is surplus. It is an amount to provide for contingencies of all kinds and characters whatever. It is the entire fund over and above the legal reserve—all that the company is allowed to hold, after declaring its annual dividends. It must declare every other cent in dividends and pay them out.

Second. The standard life policies. We do not feel that there is any need for the whole system of standard life policies, for the cumbersome preparation of elaborate forms, when it is necessarily provided that others may be authorized when needed by the companies.

Third. If the forms are retained, then there arises a matter of principle that I would like to make clear. The forms provide that the dividends may, at holder's option, be left with the company, accumulating at interest. We suggest as a better option that the dividends may be left to buy each year pure endowment insurance, payable at an age named by the policy holder. To make this clear, let us first look at the case where a man has lapsed an endowment policy and has not made any indication of what he wants done. In such case the bill automatically exercises this option for him. I read from the amendment which is intended to go here on page 49, regarding surrender values:

Provided, In case of any endowment policy, if the sum applicable to the purchase of temporary insurance shall be more than sufficient to continue the insurance to the end of the endowment term named in the policy, the excess shall be used to purchase in the same manner pure endowment insurance, payable at the end of the endowment term named in the policy on the conditions on which the original policy was issued.

That is to say: Suppose that a man lapses a twenty-year endowment policy for \$1,000 at the end of seven years, and that the money he leaves behind is enough to pay the term cost of that thousand dollars of insurance for the remaining thirteen years, with some over—

some "change." This section provides that this change shall be applied as a single premium to buy whatever it will pay for of pure endowment payable at the end of the twenty-year period.

We would like to see the equivalent of that provision substituted in the annual dividend clause, where the option now given has been said by many to be one that nobody cared for—the option of leaving the money with the company to accumulate at interest. That is a mere savings-bank function, wholly outside of the function of life insurance.

I would suggest that, whenever the policy holder chooses to leave dividend money with the company, he might well be allowed to leave it upon the same basis that the law selects for him when there is some "change" coming to him over the term cost of the remaining end of an endowment. It is exactly the same principle and the corresponding application of it, year by year, as the dividends accrue.

Then, gentlemen, having done that, I should think that you would see the way clear to say, allow the policy holder to exercise that same option once for all at the beginning of his policy. Then you have what has been given a very bad name, under the title of a "deferred dividend." You have already got it here in this provision for the man who lapses his policy. The law selects for him a deferred-dividend arrangement, so to speak. It is exactly the same thing in principle to allow a man, if he wishes, to defer his own dividends, which means simply to invest them in pure endowment insurance. An annual accounting I most heartily believe in. I would not dream of having that omitted from the bill—an annual accounting in the most elaborate shape, for every dollar of surplus, whether annually distributed or not. That will cure the past abuses in handling dividend funds. The principle of the deferred dividend is the principle of the pure endowment. It is a part of life insurance science as studied and practiced all over the world. It is a part of the compulsory system in Germany, whereby the workman is compelled to lay aside a small sum every pay day, from which he will get no return except he reaches the age of 60 or 65. That is your forfeitable deferred-dividend idea. By that means, the contribution of a small premium by many will produce a large result for those upon whom the risk finally falls. The insurance hazard of surviving to old age is exactly corresponding and complementary to the hazard of death. I hope to see those principles adopted. I do not stand for them in any particular way; our association believes in both annual and deferred dividends, honestly handled. But for completeness, in talking about a model code, I believe that the forbidding of the deferred-dividend principle—not its abuses, which are being rightly forbidden, but the principle itself, which is the pure endowment principle, and as such is applied elsewhere by automatic operation of the bill—is inconsistent and unscientific and undesirable.

Finally, the only other point that I want to make has already been mentioned—that we do not see any real reason why the same company may not write both participating and nonparticipating policies. They have been habitually doing so. Noticing that one of the proposed amendments to the printed bill still preserves that right to stock companies, we can not see any real reason why it should not be extended to all companies. It has been in the past the common practice for companies generally to do so, and by now amending to allow

stock companies to do so, it seems to be agreed that there is nothing wrong in principle about joining the two classes of policies under the same company.

The ACTING CHAIRMAN. But that would be making the mutual policy holders a stock company to sell insurance to others, and subjecting them to the risk of loss on that business.

Mr. SCOVEL. Normally giving them the profits from that business, if you please, for it would be very exceptional and a case of bad management if the nonparticipating business did not yield some profits. The mutual policy holders are already partners and owners of the company. We see no reason why a cooperative store may not have a window through which it sells to others than members.

The ACTING CHAIRMAN. But they did not agree to go into the company upon the idea of participating in anything but insuring each other.

Mr. SCOVEL. That is what this law would authorize and warrant, and it has been the common practice in the past. The first difficulty suggested was that it was difficult to maintain the equities between the two classes, but it is really no more difficult than to maintain the equities between term insurance and endowment insurance or between young and old lives or between standard risks and substandard risks. All of those problems of maintaining the equities between classes are the very business of life insurance, and there seems no reason to single out that one problem as something impossible to manage.

I thank you very much, gentlemen, for your attention.

(The committee thereupon adjourned until to-morrow, Thursday, May 17, 1906, at 10 o'clock a. m.)

COMMITTEE ON THE JUDICIARY,
Thursday, May 17, 1906.

The committee this day met, Hon. R. W. Parker in the chair.

**STATEMENT OF MR. W. C. BALDWIN, VICE-PRESIDENT OF THE
PITTSBURG LIFE AND TRUST COMPANY, PITTSBURG, PA.**

Mr. BALDWIN. Mr. Chairman and gentlemen of the committee, I believe it is necessary to limit the expenses of securing new business, and in order to accomplish this I believe it is necessary to build a new valuation; and as the chairman has suggested that we take a subject or point, I will use that to talk from to the best of my ability and belief.

The insuring of lives has to do with an increasing hazard, and therefore the necessity of creating a reserve to meet that increasing hazard. That having been established many years ago—more than a hundred years—the present valuation of policies was worked out on such a plan and used pretty generally up to this time.

As an illustration, I will take an ordinary life premium, or rather the premium for an ordinary life policy, on a life 35 years of age. This premium is used by two of the older companies—the Equitable and the New York Life—who charge for such a policy \$28.11. It is known as a 3 per cent reserve premium, and the net portion or

reserve would be \$21.08. Therefore, the other portion of the premium, or that which is intended to be used for expenses, would be \$7.03, or 25 per cent. It was stated here yesterday by one of the speakers that the loading on some premiums was 50 per cent. I do not think he intended to say that, because I do not think there is that much loading on any premium.

Mr. ASHBROOK. If you will pardon me, he said 70 per cent.

Mr. BALDWIN. He surely did not intend to say that. When interest earnings were higher, less money was needed to be put in the reserve, but in order to get along as rapidly as possible I will not discuss this as I am not an actuary, and will pass that by. However, assuming that the loading or the provision made in the building of the premium for expenses is 25 per cent of the premium I am now using to illustrate from, and if the expense of getting new business at the present time is, as was demonstrated in the recent Armstrong examination, from 40 per cent to as much as 400 per cent of the first premium, it is necessary to use the excess expended above the loading on the first premium from other funds, and the point I want to make is that if there is but 25 per cent loading on the first year's premium, and it costs, we will say, 100 per cent as an average to secure business, 75 per cent must be secured from some other source, as required by the present valuation, in addition to the reserve, and under the present system it is borrowed or rather anticipated from the loading or expense portion of renewal premiums, and as a small company has few renewals, it can not borrow, as it has not that source that an older company has to borrow from; hence can not compete, and the older companies assume that as the premiums are paid, this 75 per cent that they borrowed will be paid back as renewal premiums are paid, and assuming that 100 per cent has been used for securing business, if premiums on the policy were paid for four years, you can readily see that the 100 per cent would be received from that policy holder. However, if it is not renewed for four years, that business has been secured at a greater cost than the provision made for expenses, and while it was stated here yesterday by one of the speakers that he never learned or knew of any actuary claiming that new business should be secured within the provisions made in the first year's premium, I, for my part, have never had an actuary state to me that the original intention when the present premiums were constructed was not that the expenses should be the same each year, the first year and thereafter, and it is a fact that the actuaries are at the present time trying to work out a valuation suited to the present conditions, thereby admitting that the present valuation does not conform to the present system upon which the life insurance business is transacted.

A great many of the older insurance men will state to you that they wish they could go back to the days when they received 10 or 15 per cent on the first year and a renewal thereafter. I have friends who have been in the business a great many years, and they say when they worked for 25 per cent and a certain number of renewals that they made more money than they have been able to make in recent years, because there was not the waste, there was not the rebating, and there was not the extravagance in a great many ways that has crept into the business. You may think it strange that I talk this way, as I represent a new company, as speakers

have told you that the new companies need a lot of leeway in order to get new business. I believe that the new and small companies should be compelled to get the business within the provisions made for expenses in the first year, just as the larger companies should, giving the small companies just an even break with the older companies. They will then still be at a disadvantage, as they can not use the margin on renewals to open branch offices and to establish general agencies, as a new company has no renewals the first year and but a small income for a number of years, and therefore can not anticipate or borrow the loading on renewal premiums to use for expenses in getting new business, and this is just what should be prevented by law, and then you will make it possible for new and small companies to build up a permanent, substantial institution in any district in the United States where, in the judgment of men that understand the business, there is an opening for a life insurance company.

You will thereby prevent the concentration of such enormous funds in New York or any other point, and, gentlemen of the committee, when a United States Senator makes the statement here publicly that in ten years from now a few of the life insurance companies will control the finances of the country, it is your duty to prevent it if you can, and if you frame this bill so it will not be possible for one company to spend a greater sum to place new insurance on their books than a competitive company can pay, you have, I believe, prevented the possibility of any group of companies controlling the finances of this great country.

Some of the very best companies in the country have lived within the provisions made by either the select and ultimate or the modified term, which our company adopted and has used to the present time. The evils that can be applied in permitting the borrowing, loading, and advancing I think it only proper that I should mention. Assuming that a general agent is given a contract for a large territory at, say, 50 per cent commission the first year with $7\frac{1}{2}$ per cent renewal commission for the life of the policy, or say nineteen years after the first year (some of the conservative companies do not extend the renewal commissions so long), and assuming that the general agent wants to buy business, believing that his renewals will average, say, ten years, that general agent can use his renewal commissions by anticipating them, and he pays a first-year commission of, say, 65, 70, 80, or even 95 per cent. Now, the new company has no renewals and small companies but few, therefore their general agents have no income from which to borrow to enable them to buy new business with at a greater cost than the provisions made in the construction of the premiums for expenses during the first year.

THE ACTING CHAIRMAN. Who does he pay the 90 or 95 per cent to?

MR. BALDWIN. To the agent. I may state that I am not partial to any system of the construction of premiums. I am trying to show that the old system for valuing policies is not applicable at the present time, but the old companies do not need to change. However, some of the actuaries admit that the select and ultimate, which is the valuation adopted in New York, or the modified preliminary term, are either practical and safe.

Some of the best actuaries in the United States have publicly stated

that the select and ultimate is scientific. I believe no valuation of policies has ever been built with so much data to work from as the select and ultimate, because it was built recently and data was gathered from all over the world to work the valuation from, and it was worked particularly to enable new companies to start and to place small companies on an equal footing with the larger companies, and as it is worked on a basis of about 50 per cent mortality the first year, 65 per cent the second year, 75 per cent the third, 85 per cent the fourth, and 95 per cent the fifth, it should be safe, and as the actuary of one of the large companies stated here before you yesterday that there was more saving than the percentages mentioned in the select and ultimate valuation, and that the mortality did not reach 100 per cent until after the fifth year, therefore the select and ultimate must be safe, and the actuary that appeared before you admitted that there was more saving in mortality, taken as a whole. One company may have an excessive mortality for a year or two, but, taking it as a whole, the mortality does not reach the 100 per cent among all companies until beyond the fifth year. Therefore, if there is a saving in mortality to enable companies to pay 67, 75, 85, and 95 per cent commission the first year, it is certainly safe. Therefore why not value accordingly and make all companies work on one basis, not giving larger companies advantages over small ones? The modified preliminary term makes practically the same allowance for expenses, and by some is classed as the same valuation as the select and ultimate. It is not arrived at in the same way, but it gives about the same margin to the companies using it.

The reason it is necessary to have some different valuation is to get more money to use during the first year, for the reason that the conditions are entirely changed to-day from what they were when the old way of building the premiums was arrived at. A great many people lived those days for, say, \$500 a year. The same men to-day in the same business would probably spend \$1,000, \$1,500, or \$2,000. The business was secured then within the provision made for expenses during the first year. Why not now? I do not pretend to state that there is no necessity for the spending of more money for securing life insurance than it was necessary to spend then, because every man in the field must make more money, and he should make all the money he is entitled to, but there has been too much waste in the business, and it has been authorized to some extent from some of the home offices. The system of extending the general agent's renewals, as has been done in the past, is wrong. It permits a general agent to pile up too large an income. He can use that income to pay more for the business the first year than the company has agreed to give him and more than it has authorized him in his contract to pay.

Mr. BIRDSALL. When and where was that system inaugurated, instead of paying a flat rate to the agent?

Mr. BALDWIN. According to my understanding, it was the original plan, adopted probably fifty or sixty years ago, to pay the same the first year as thereafter.

The ACTING CHAIRMAN. Like paying commissions on rents?

Mr. BALDWIN. Yes, sir.

The ACTING CHAIRMAN. You give him a commission on the rent as it comes in?

Mr. BALDWIN. Yes, sir. I have no criticism to make of anything that has occurred in the past, but the present conditions are different, and it is absolutely necessary to have a new valuation.

The ACTING CHAIRMAN. Under the conditions which you have mentioned, up to about twenty years ago, dividends were declared in proportion to premiums contributed on the first rate. Now they are declared in proportion to the reserve that has accumulated on a particular policy.

Mr. BALDWIN. I would rather not talk on that point, as the actuary apportions the dividends.

The ACTING CHAIRMAN. I am simply seeking to ascertain whether more dividends come back under the old plan than now.

Mr. BALDWIN. Hardly any dividends came back from the first year, but more dividends come back prior to twenty years than in the last twenty years.

Mr. ASHBROOK. Under the percentage plan the dividends of a company being successful were likely to be somewhat uniform throughout. Under the contribution plan it starts in at a low rate and progresses every year and finally reaches a much higher rate than the percentage rate.

Mr. BIRDSALL. The point I was getting at is, Upon what theory or basis is the general agent or the division agent, after being paid a liberal salary, entitled as well to a commission on renewals?

Mr. BALDWIN. The best companies do not pay a salary on top of commissions. What I consider a first-class company would pay from 40 per cent to 50 per cent commission the first year—that is, on an ordinary life premium—and a renewal commission of 7½ per cent running from ten to twenty years and in some cases for the life of the policy. Those companies I have referred to do not pay any salaries, any branch office expenses, or any compensation of any kind in addition to the commissions which I have mentioned.

Mr. BIRDSALL. They deem that equivalent to what they would have to pay in salaries, and it also enlists a little more interest in the business?

Mr. BALDWIN. Yes, sir. I believe that notwithstanding the fact that the general agent may be entitled to any of the commissions I have named, he should not be permitted to use any commission or any money to secure new business in addition to the amount that is provided for in his contract for commissions on the first year's premiums.

Mr. BIRDSALL. Is it customary for the general agent to subdivide these renewals with the field agent?

Mr. BALDWIN. Yes, sir; in some cases. That is left to him, just as a dealer in any commodity. He would get some of the business without any renewals, some with a few renewals, and some with a greater number of renewals. Now, have I answered your questions satisfactorily?

Mr. BIRDSALL. Yes, sir.

Mr. BALDWIN. The reason that I believe that the limiting of the expense of securing new business is necessary is that if it is not limited by the law the general agent will use some of his renewals and pay a larger commission in securing the business than is provided in the construction of the premium. Therefore, a small or new company can not exist in competition that will permit of more money being spent in the securing of new business than is provided for in the

construction of the first premium, and according to the present basis of valuation used by the old companies—and they all of them object to the select and ultimate or modified preliminary term—the new company or a small company would be charged with more reserve than is required during the first year. Therefore they would show an impairment at the end of the first year that they might not show if there was a limitation of expenses providing for expenses not exceeding the provision made for expenses in the construction of the first premium.

Your bill, as originally framed, permitted the applying of all first premium for term insurance. A great many companies have applied all premiums as first year term premiums in order to try to exist in competition with the old companies. All companies that have applied all premiums as first year term have not been able to pay much in the way of dividends to their policy holders, and by taking the Handy Guide, which is published and sold by the Spectator Company of New York, any of you gentlemen can run your finger down the column which indicates dividends paid to policy holders, and you will find that any company that has applied all premiums as first year term have paid scarcely any dividends or have scarcely any surplus to the credit of the policy holders; but, mark you, do not stop when you consider the companies that have applied the premiums as first year term premiums and conclude that they are the only ones that have paid small dividends or have accumulated little for their policy holders, as you will find in this same book the companies referred to in the Armstrong committee report as having paid from 100 to 400 per cent in the way of first-year expenses for securing business, and some companies have paid salaries on top of the contracts. These companies have paid scarcely any dividends to policy holders and have accumulated scarcely any surplus to the credit of their policy holders. I refer to this for the reason that I want to impress upon you the fact that no company can pay the price that has been paid for business and also pay to their policy holders what they have illustrated they would pay, and the old companies have not been able to pay as large dividends as they did when conditions were entirely different. However this is partly accounted for by the lower rate of interest and, of course, the necessity of the agent receiving more pay, as the cost of living is higher now.

Mr. STERLING. Are the rate of the premiums about the same in all companies?

Mr. BALDWIN. With the same guaranties in the policy they are very nearly the same. The impression has gone out that premium rates are higher in America than in other countries. That is not true. Take an ordinary life premium at 35 years of age and take the average premium of the companies in the principal foreign countries and I believe it is about \$29 and some cents; whereas take the average premium of the principal companies in this country and it is \$2 and some cents less than in the foreign companies. That is explained thoroughly by the fact that the interest rates are lower there than here, and as the interest rate goes lower here in our country the higher the premium must go, and probably in twenty or thirty years life insurance will cost more here than to-day; that is probable.

Mr. LITTLEFIELD. Do you mean to say that life insurance costs more over there than here?

Mr. BALDWIN. Yes, sir.

Mr. LITTLEFIELD. Our own companies maintain the same limit of premium abroad as at home?

Mr. BALDWIN. I am not prepared to say; but I am positive in some countries our home companies charge a premium for an extra hazard. This usually refers to tropical countries, and our home companies do not write deferred dividend policies in some foreign countries.

Mr. GRAHAM. In France they charge \$1 additional on the policy, and in Russia it is the general practice to charge a materially higher premium. It is a matter of law.

Mr. BALDWIN. As I have just stated, that applies principally in tropical countries and where the hazard is greater.

Mr. LITTLEFIELD. All companies do that, foreign and domestic companies?

Mr. GRAHAM. Yes, sir; they all meet those figures. There is an effort to discourage companies in foreign countries from issuing policies at a low premium, and, on the other hand, there is an effort to discourage the American companies from paying large commissions to agents; and in Germany there is an absolute rule that prevents companies from paying commissions above a certain figure. That is to protect the home companies.

Mr. LITTLEFIELD. What company do you represent?

Mr. GRAHAM. I am just now from Minneapolis. I have been on the Northwestern National. I have been associated with the insurance commission.

Mr. LITTLEFIELD. What is your name?

Mr. GRAHAM. William J. Graham.

Mr. BALDWIN. While at this point I would like to give my objection to the applying of all premiums as first-year term. For instance, if the premium is, on the ordinary life policy, \$28.11 at age 35, and the premium on a ten-year endowment at the same age is \$100, the way this bill is framed the company could use \$96 of the \$100 for expenses. The company has guaranteed in that ten-year endowment contract to pay the insured a thousand dollars at the end of ten years, and in a great many cases they have made illustrations showing the insured that they will pay him a lot of dividends besides. They have used practically all of the first \$100 for expenses; therefore the responsibility is thrown on the company to pay a thousand dollars out of the remaining \$900 which would be received from the nine renewal premiums, and they also have to pay to the general agent a commission on the renewal premiums, and should they make any losses in investing the money they would also be compelled to make up such losses out of the \$900.

I do not believe any company that has applied all premiums as first-year term carries out a ten-year endowment contract on its own resources; that is, that policy, when it is carried out, is carried out from the income received from some other policies.

Mr. LITTLEFIELD. You mean that the policy does not take care of itself?

Mr. BALDWIN. Yes, sir.

Mr. LITTLEFIELD. What is your company?

Mr. BALDWIN. The Pittsburg Life and Trust Company. We paid for \$3,405,951 of insurance last year.

Mr. LITTLEFIELD. That you actually wrote?

Mr. BALDWIN. Yes, sir; written and paid for.

Mr. STERLING. You paid that much in losses?

Mr. BALDWIN. No, sir; we secured that much new business. The kind or plan of the policy has all to do with the amount that you have to use for expenses, and the percentage of plans of the above amount are 47.5 per cent on the ordinary life plan; 35.2 per cent on the limited payment life, which would be ten, fifteen, or twenty payment life policies; 6.1 per cent on the endowment plan and 11.2 per cent on renewable term policies, making the full 100 per cent. It cost us of the first-year premiums, including all commissions, compensations, traveling expenses, medical and inspection fees, half of the medical director's salary and half of the secretary's salary (for the reason that they devote part of their time to the agency department), 77 per cent of the first year's premiums.

Mr. LITTLEFIELD. Those are the administration expenses?

Mr. BALDWIN. Yes, sir; for new business, not the home office. It costs us 77 per cent of the first year's premium on all of the business. The select and ultimate valuation provides for 66 per cent of the ordinary life premium to be used for expenses. Therefore we fell short 11 per cent—that is, we spent 11 per cent too much according to the select and ultimate valuation. Now, could we not have been able to secure our business 11 per cent cheaper if the older companies were not paying 75 or 85 or 95 per cent for new business right in the same town, and with the agents of thirty-five or forty companies all saying to the insuring public: "It is a new company; would you go into a new company? You do not know whether it will succeed or not."

Now, in addition to the expenses of 77 per cent of the first year's premiums, it was necessary for us to place in our reserve as a liability \$35,716, being the reserve required for the carrying out of our policies as modified preliminary term, which means to apply the ordinary life portion of any premium as first-year term, or, in other words, you can use it all for expenses except the net term reserve which is required to pay the death losses the first year, which would average about \$4 a thousand. In other words, you have about 87 per cent of the ordinary life premium on the first year modified preliminary term valuation for all expenses connected with the issuing of new insurance.

Mr. STERLING. What is the 87 per cent?

Mr. BALDWIN. For expenses, including every expense that is connected with the securing and issuing of the new business.

Mr. STERLING. And the \$4 a thousand.

Mr. BALDWIN. That is supposed to be required to pay the death losses that occur during the first year the lives are insured. That would leave \$96 out of each \$100 to be used for all other purposes. That is of the ordinary life premium only.

Mr. STERLING. You say that an ordinary life policy at age 35 years would cost about \$30?

Mr. BALDWIN. \$28.11 is the premium used by the large companies.

Mr. STERLING. And you say \$4 of that would be necessary to pay death losses for the first year?

Mr. BALDWIN. About \$4 and a few cents or less than \$4, according to age.

Mr. STERLING. How much of that amount is it estimated would be required to go into the reserve to pay the increased risk on account of the increased age of the man?

Mr. BALDWIN. None of it; not that year. About \$4 would be required, as stated above, to pay the death losses that would occur during the first year of insurance. The next year you put in a little more to provide for the increasing hazard.

Mr. STERLING. Is that all that is necessary?

Mr. BALDWIN. \$21.08 where you are providing for the whole life—I mean to insure clear through life.

Mr. STERLING. \$21.08 makes the amount necessary to pay the losses of the year?

Mr. BALDWIN. And also to provide for the increasing hazard clear through life.

Mr. STERLING. That would only leave \$7?

Mr. BALDWIN. \$7.03, or 25 per cent.

Mr. LITTLEFIELD. The fact is that that gives you so much to get the business the first year, increasing the amount you have to reserve the succeeding year?

Mr. BALDWIN. Yes, sir. If you use more the first year you must put in a little more each succeeding year. The select and ultimate or the modified preliminary term provides for that exactly, for the using of more the first year and accumulating the excess you use the first year later on.

The ACTING CHAIRMAN. What do you mean by the 87 per cent?

Mr. BALDWIN. Eighty-seven per cent of the ordinary life premium is permissible to be used for all expenses on new business during the first year, applying the ordinary life premium only as preliminary term.

The ACTING CHAIRMAN. Can you state the amount of the total premiums received on all classes of insurance by your company?

Mr. BALDWIN. Yes, sir. We received on this business \$106,612.27 in premiums, and the ordinary life portion of those premiums was \$66,655.

The ACTING CHAIRMAN. That includes the ordinary life portion of the endowment policies and everything?

Mr. BALDWIN. Yes, sir. Under the modified preliminary term, using it as we do, and the insurance by plans the same as secured by our company, as just stated, there would be 66 per cent of the total premiums to use, or, if all the insurance we had written was ordinary life, we could use for all expenses in issuing that new business, 87 per cent. To give you the exact condition that we were in after providing the reserve on the business, which reserve amounted to \$35,716, we had to secure from other sources \$11,359.10, or, in other words, the reserve (\$35,716) and expenses (\$82,255.37) amounted to \$117,971.37, or about 110 per cent of the total premiums which we received. Therefore there had to be \$11,359.10 taken from other funds or income or out of contributed surplus, which would have to be contributed if it was a new company. Fortunately, the last year being the third year we had done business, we were able to increase our surplus about \$14,000.

I would like to impress this very strongly on the committee.

I believe that the old valuation will prevent new companies from starting, that either the select and ultimate or the modified prelimi-

nary term or some valuation that may be constructed that will provide more of the ordinary life portion of the premium for first-year expenses is absolutely necessary. Your bill should provide that no money not provided for expenses in the construction of the first year's premium shall be used in securing new business, or if any is used, that the bill shall state what amount shall be borrowed or used from other funds. I have sometimes thought that the Armstrong bill, as constructed, limiting the expenses and loading according to the select and ultimate, and limiting the renewals to the tenth year, might have provided that 7½ per cent might be borrowed from the second premium, and, having used that much more the first year, that if it is thought necessary by your committee that the general agent shall be allowed a renewal beyond the term provided for in the Armstrong bill that the renewal could be extended to the eleventh or even including the twelfth year.

Mr. STERLING. Would it be a very difficult matter to compute what per cent of all premiums the company takes in would be necessary to pay the expenses, with an idea now of limiting by law or saying that companies shall be permitted to apply 5, 10, 20 per cent, whatever per cent is necessary of all premiums, not to exceed that amount of all premiums collected, to pay the expenses of operating the company and not confining it to the first year's premiums?

Mr. BALDWIN. No, sir; for the reason that a new company or a small company could not live at all under that plan, as the larger companies would be able to spend an amount that would make it impossible for small companies to live. That is exactly what the larger companies are doing now. They are using a certain percentage of their income from renewals to buy new business at an excessive cost, and by so doing they are strangling the small companies and practically preventing new companies from starting, just as the so-called "trusts" in their lines are doing.

Mr. STERLING. It seems your company has gotten along with much less expenses than others.

Mr. BALDWIN. We had to contribute the first two years.

Mr. AMES. Does not every new company contribute?

Mr. BALDWIN. If your bill was to provide as I have outlined it would not be necessary for any company to make any provision for contribution to secure new business. It would be necessary for them to make provision to pay their fixed charges for their home office for whatever length of time they figure that it would be until they had margin enough from renewal premiums to support their home office.

Mr. AMES. Is not every new company compelled to pay out practically \$2 for every dollar received?

Mr. BALDWIN. Yes, sir. That is just what we claim should be avoided.

Mr. AMES. There are ways to get around it?

Mr. BALDWIN. If some one can figure it out I would like to see it.

Mr. AMES. There is the Columbia National Company of Massachusetts.

Mr. BALDWIN. The Columbia National has used, according to the last statement of their operating company, about \$3,000,000 that they have secured by peddling the stock of the operating company over

the United States, and in a great many cases sold it with such misunderstanding that there will be more dissatisfaction connected with the operations of that institution than there ever was in connection with any life insurance company in America.

Mr. AMES. I understand they organized two companies under practically the same ownership and control—an insurance company and a securities company.

Mr. BALDWIN. The securities company is composed of some people who own none of the life insurance company's stock, and the control of both is held by a few individuals, and they have assigned under a contract all of the loading on all premiums to the operating company.

Mr. AMES. For a certain number of years.

Mr. BALDWIN. How long is that?

Mr. AMES. The commissioner of Massachusetts ruled, I think, that it was for twenty or thirty years.

Mr. BALDWIN. That would be long enough for the policy holders never to get anything, and the stockholders of the operating company will be tired out also. I think it is the worst business proposition that was ever permitted to be carried on in the United States. I think it is against public policy.

Mr. DE ARMOND. Whereabouts is that company located?

Mr. BALDWIN. Boston, I think; and I believe it has been taken up by the insurance commissioner of Missouri and some other States with the idea of preventing its operation in the sale of its stocks. The impression has been created here that nearly all of the underwriters are opposed to the limitation of expenses. I have not found it so. I am a member of the Underwriters' Association of Pittsburg, and Mr. Scovel is a very dear friend of mine, and he has been very nice to me, and our local underwriters' association has been very courteous to our company; but I do not believe that the recommendation that was supposed to come from the underwriters' association as to your bill, etc., was voted on by the whole association. I think it came simply from the executive committee. I find that the best men in the field want the expenses to be limited because they do not know where expenses will stop, whether companies will borrow and spend one, two, three, four, or five years of the loading to buy new business. I think that if the expenses of buying new insurance are limited and a valuation provided that will give a margin, as I have indicated, there will be very little necessity of other changes in your bill.

Does this act permit a company operating under a charter of the District of Columbia to have its home office in another district?

Mr. AMES. I do not think it does.

Mr. BALDWIN. I think that would go a long way towards simplifying matters, and I believe if the bill could be so framed that a company would be permitted, if so chartered under the laws of the District of Columbia, to have its home office in any other State or Territory, it would be beneficial.

Mr. STERLING. You do not mean to say, Mr. Ames, that a company in New York or Massachusetts or in any other State coming here and qualifying here to do business would have to have its office here?

Mr. AMES. No, sir.

Mr. STERLING. You would recommend that if practicable?

Mr. BALDWIN. I would recommend that companies operating under charters of the District of Columbia might have their home office in any other State or Territory. It would be a step in the direction of getting the companies in the other States to operate according to the rules of one department to a very large extent. If this is to be a model law, and if a company was authorized to transact the business of life insurance under a charter issued under this act, would not the other States be at least very apt to accept the examinations of this department?

Just before I left home an examination of our company was completed by the Pennsylvania department, and not knowing at all that it would be mentioned in the report of the department, I find that the report is as follows: The policies have been valued on the modified preliminary term against which no discrimination can be charged. This plan, by the way, conforms very nearly to the New York law.

The ACTING CHAIRMAN. The valuation by the modified preliminary term is mentioned in your policy?

Mr. BALDWIN. No, sir; it just appears as first-year term. We simply elect to value under that valuation for the reason that the law does not provide particularly which. That is what I think should be provided. The law should provide that the companies shall value according to what valuation is adopted by the department. I know it would save the insurance commissioner a good many hard problems to solve.

STATEMENT OF MR. GEORGE KUHN, FIELD MANAGER, BANKERS' LIFE INSURANCE ASSOCIATION, DES MOINES, IOWA.

Mr. KUHN. Mr. Chairman and gentlemen of the committee, I have not any speech to make. I am not going to read you any essay on the subject of life insurance. I am here to represent one branch of the life insurance business, the assessment insurance, or the poor man's insurance, the insurance of the plain people. There is a large class of citizens who would like to carry insurance who are not able to carry it at the high rates charged by the old-line companies. Their families are as much entitled to protection as the families of other citizens. There is a field for assessment insurance. There is a need for it. On one plan or another of assessment insurance one-half of the insurance carried in this country to-day is on the assessment plan. I speak of that to show you the importance of the measures proposed in this bill. In other words, there are 4,500,000 people carrying between \$9,000,000,000 and \$10,000,000,000 of insurance on the assessment plan. There is about the same number of men carrying insurance on what is known as the legal-reserve plan.

I am not here to say that the legal-reserve plan is not right. I believe it is good insurance. I carry some of it myself. But I should say that there is a field for the other and cheaper insurance. Companies that furnish insurance for those people for from \$8 or \$10 a thousand furnish protection enough. They do not seek to get any surrender values, any paid-up policies, any extended insurance, nothing in the case of living whatever; but, in case of death, they seek to pay a sum to the families of the insured. Now, you must admit that if that is all you undertake to do that it takes much less money to

carry that sort of insurance than it would if you had all this extra money to take care of and invest and to make proper returns of.

Mr. LITTLEFIELD. What territory do you cover in your business?

Mr. KUHN. We operate in 30 different States. None of the States south of Kentucky, Missouri, and Kansas. All the Northern States.

Mr. LITTLEFIELD. Do you carry any cash reserve?

Mr. KUHN. We have about \$9,000,000 of assets in the shape of reserve funds that have been accumulated for the protection of our contracts.

Mr. LITTLEFIELD. How much insurance do you carry?

Mr. KUHN. Something over \$250,000,000 of insurance.

The ACTING CHAIRMAN. How much would the legal reserve on that be?

Mr. KUHN. About \$14,000,000; so we are short of what would be the legal reserve of about \$5,000,000.

Mr. LITTLEFIELD. Your company is organized under the laws of Iowa?

Mr. KUHN. Yes, sir.

Mr. LITTLEFIELD. Does the law require a reserve, or is that voluntary?

Mr. KUHN. It is a voluntary proposition with this company.

Mr. LITTLEFIELD. The State does not require anything of the kind?

Mr. KUHN. No, sir. The State requires that a company shall have on hand at least the face of its largest policy that it issues, and as long as it pays its losses in full it is allowed to continue in business. When it fails of course there is a provision to wind it up.

Mr. LITTLEFIELD. How old is your company?

Mr. KUHN. It is twenty-seven years old. It was organized at the time of the great failure in the old-line companies by a banker named Edward A. Temple, who wanted insurance without investment, and he recognized that simple assessment insurance was not good; that it was good temporarily, but not lasting, and he tried to make some provision whereby the increasing death loss would be met, so he said that for each year of your age you deposit \$1 on each \$2,000 of insurance that you carry, that to be held as a guarantee that you will pay the assessments against you for a period of three months. This company collects once in three months, or four times a year, first paying the losses of the company and then calling on the policy holder to make good the losses that have been paid and as a guarantee that he will pay a man at the age of 40 years deposits \$40 on \$2,000 of insurance. If he fails to pay the guarantee is there and the lapse is taken from it.

Mr. LITTLEFIELD. What is the percentage in lapses?

Mr. KUHN. About eight lapses to every death in round figures.

Mr. LITTLEFIELD. What percentage of the policies lapse on that basis?

Mr. KUHN. It would be hard to say; I can not answer that exactly.

Mr. LITTLEFIELD. Approximately?

Mr. KUHN. Perhaps 10 or 15 per cent.

Mr. LITTLEFIELD. How does that compare with lapses in the old-line companies?

Mr. KUHN. The proportion is not quite as large as it is in the old-

line companies, or some of the companies. I presume that is accounted for by the fact that they report a great deal of business that is issued that is not delivered, or, perhaps, it is delivered for one year and appears as a lapse the next year, which makes it hard to get at the real situation.

Mr. LITTLEFIELD. Do you graduate the assessment in accordance with the age of the policy holder?

Mr. KUHN. Yes, sir.

Mr. STERLING. At the beginning?

Mr. KUHN. Yes, sir.

Mr. STERLING. The policy holder pays the same rate through life?

Mr. KUHN. A man at 40 years is rated at \$40.

Mr. STERLING. And that rate is not increased?

Mr. KUHN. It is not increased on that particular man.

Mr. LITTLEFIELD. Of what do the assets consist?

Mr. KUHN. Seven million dollars of the assets are first-mortgage loans on real estate not to exceed 50 per cent of the appraised value of the property, exclusive of all improvements.

The ACTING CHAIRMAN. What average interest do you get?

Mr. KUHN. It is a little over 5 per cent. In the past it has run as high as 8 per cent. At the present time it is 5 per cent.

Mr. LITTLEFIELD. Where located?

Mr. KUHN. In the State of Iowa.

Mr. LITTLEFIELD. In your own State?

Mr. KUHN. Yes, sir. There is a provision in this bill which says that you shall not invest to exceed 60 per cent of the funds in real-estate mortgages. We have found them to be the very best investments we can make. We have invested \$12,000,000 and have not lost one dollar, and have not a single piece of real estate on our hands from foreclosure.

Mr. LITTLEFIELD. What is the balance of your assets in?

Mr. KUHN. Take the dollar that the man pays for each year of his age; he is allowed when he first goes in to give a note, and most men give notes. That note is payable at periods distributed from two to three years and we have, according to the statement on the 1st of March, 1906, \$1,317,000 in those notes that were not yet due; and while I am speaking of it, you may say those notes are not very good assets, and some of the commissioners have questioned whether they should admit them as assets—

Mr. LITTLEFIELD. They would not be a quick asset?

Mr. KUHN. No, sir; but the question was whether they were good or not. There is about 92 per cent of those notes that is paid, and if you were to go to your bank and inquire in regard to the best commercial paper you would find that there was not such a large per cent of the best commercial paper paid when it fell due. We have \$1,317,000 in those notes. There was cash in bank, \$510,932—\$510,000 distributed over nearly 7,000 depository banks in the United States, so that when our assessments fall due you are given the privilege of going to the bank in your own home town and depositing the money to the credit of the Bankers Life Association. Those banks are called depositories. I think we have three here in the city of Washington. The bank gives you a receipt for your money. So there is

an account distributed over 6,000 or 7,000 banks, and in those banks on the 1st of March we had a little over \$500,000 in cash.

Mr. LITTLEFIELD. This reserve fund you have been accumulating in the course of the business of the company?

Mr. KUHN. Yes, sir.

Mr. LITTLEFIELD. How rapidly do you increase it? Do you have any arbitrary percentage by virtue of which you continue to increase it, or is that simply determined from time to time?

Mr. KUHN. That fund is divided into two funds—one a guaranty fund and another a reserve fund. When the company was organized, they sought to make provision for the increased cost of insurance in later years, and they provided among themselves that any who lapsed out of course perpetuated this \$40—

Mr. STERLING (interrupting). Does that \$40—the preliminary fee—go to make up the guaranty fund entirely?

Mr. KUHN. A portion of it; yes, sir.

Mr. STERLING. No other source?

Mr. KUHN. There is the reserve fund.

Mr. STERLING. Does the reserve fund come from the quarterly payments of policy holders?

Mr. KUHN. No, sir. The reserve fund at the present time is \$3,500,000.

I was going to explain that the company is an association and the members agree to contribute so much in case of death.

Mr. LITTLEFIELD. It is purely mutual?

Mr. KUHN. Yes, sir.

Mr. LITTLEFIELD. Are there incorporators and stockholders?

Mr. KUHN. No, sir.

Mr. LITTLEFIELD. It is purely mutual?

Mr. KUHN. Yes, sir.

Mr. LITTLEFIELD. There are no stockholders?

Mr. KUHN. No, sir; none whatever. They agreed that they should have some sort of a reserve fund for the protection of the policy holders of the future, and so they said whoever lapses out shall lose the \$40 paid in and the \$40 shall be transferred to the reserve fund. In the twenty-seven years that this company has operated that \$40, with the interest on the funds, has amounted to a little over three million five hundred thousand dollars, which they now hold. This is the only company operating on this plan, although we have had some seventeen or eighteen namesakes who have taken the name on account of the success of the company, the Bankers' Life Association of this State or of that State.

The ACTING CHAIRMAN. How large policies do you issue?

Mr. KUHN. Six thousand dollars is the largest policy we issue and the man must not be over 40 years of age. If he is over 50 years of age, he is not insurable at all.

Mr. LITTLEFIELD. You do not take them in at that age?

Mr. KUHN. No, sir.

Mr. LITTLEFIELD. Why do you not issue a policy larger than \$6,000?

Mr. KUHN. The idea has been to distribute the liability over a large number of people.

Mr. LITTLEFIELD. That decreases the liability of the company?

Mr. KUHN. It is better to have it over a large number than a small number.

Mr. LITTLEFIELD. In other words, you would not think that it was good commercial policy to issue policies above \$6,000?

Mr. KUHN. I would not think so. We have thousands of people who write to us and say they would like to get more and will take more insurance, but it has been the policy of the company to issue only small policies.

Mr. LITTLEFIELD. That is, you think it would be more to the interests of the company to have a larger number than a smaller number?

Mr. KUHN. I think the danger would be greater. We take for the expense of securing this insurance about \$2 a thousand. That is what it costs. Our total expenses are limited to that \$2. We pay all the salaries and expenses of every description and save more than \$100,000 out of that fund, and that is transferred to the reserve fund.

The ACTING CHAIRMAN. Two dollars a premium?

Mr. KUHN. Yes, sir.

The ACTING CHAIRMAN. Does that include commissions?

Mr. KUHN. No, sir. It goes by percentage. A man at 30 years of age would pay \$7.50 a thousand, which goes to pay the agent and the medical fee, and so on.

The ACTING CHAIRMAN. Do you take any but standard lives?

Mr. KUHN. No, sir.

Mr. LITTLEFIELD. You do not do any industrial insurance?

Mr. KUHN. No, sir. What you heard here yesterday about assessment insurance was from the local companies that do an industrial business only, as I understand it, although they have the privilege of writing life policies if they see fit. There is a distinct difference between that class of insurance and the other kind of insurance.

Mr. LITTLEFIELD. Would you object to expressing an opinion as to the wisdom or unwisdom of either kind?

Mr. KUHN. No, sir.

Mr. LITTLEFIELD. What do you think of industrial insurance as compared to ordinary life; is it proper or improper, wise or unwise?

Mr. KUHN. It is said to be proper, and there are certain lines in which industrial insurance is all right.

Mr. LITTLEFIELD. What do you think about it?

Mr. KUHN. I would not care to go into that. It is a branch of the business that I do not know much about. I never had anything to do with it. As I understand, it is largely the insurance of children—not altogether, it may be adults; but, as I understand, it is largely the insuring of the lives of children. The theory is to make good the loss that occurs from the death of the child. My idea of insurance has always been that there should be somebody dependent upon the life that is insured. It is a branch of the business that I do not feel qualified to speak about.

Mr. STERLING. Going back to your assessment, I think there is a provision in the policy that the company shall increase the assessment up to a certain amount?

Mr. KUHN. Yes, sir.

Mr. STERLING. And this guarantee simply amounts to this, that it shall not exceed this certain amount?

Mr. KUHN. Yes, sir.

Mr. STERLING. In theory you only collect what is absolutely necessary to pay the death losses?

Mr. KUHN. That is all.

Mr. STERLING. But you may increase it from time to time until it gets up to \$18.

Mr. KUHN. At 40 years \$14. The time when this accumulated fund can be used is when the death rate exceeds ten to the thousand. If we were to have eleven deaths to the thousand we would use the accumulated interest on the funds, and that interest would run about three more to the thousand. That would make thirteen, without touching any of the permanent funds. Then if we had fourteen, it would be paid from the reserve fund.

Mr. STERLING. Then you have an assessment every six months to pay the expenses of the office.

Mr. KUHN. Yes, sir.

The ACTING CHAIRMAN. Have you any written statement or printed statement that shows the relation between the various funds?

Mr. KUHN. I can furnish them to the committee and will be pleased to do so.

What I appeared here for in particular is section 56 of what is known as the Ames bill. That section provides that no company which depends upon an assessment upon its members shall do business in this District. Now, I want to go back a little and to say that this is not the first time that this section has appeared in proposed bills over the country, and so that you may understand, I will say that my connection with my company is that of placing all the new business. I have charge of all the agencies for the company. I direct them all, and the work is all done from my desk.

In addition, whenever any legislative matter comes up like this bill it is my business to look after it, and for thirteen years I have been a tolerably busy man and I am familiar with the legislation in some thirty-odd States.

I want to say a few words about the wisdom of passing this bill at this time and the effect that a bill of this kind will have over the country. In the first place, the insurance commissioners have every convenience for deciding what they believe to be good for insurance companies and the people at large and what ought to be done in the several States, and have tried to do the same thing in all the States, so that there would be uniformity in blanks, etc.; and the Ames bill, as I understand it, has been indorsed practically by nearly 45 of these commissioners. The idea of a model code has been indorsed by these men, and at the coming sessions of the legislatures there will be legislation in nearly every State where the legislature meets. Legislation goes by fads, the same as hats or shoes or anything else.

A measure will start at one end of the country and will go through the whole system. They get a new idea and they ride it until they get another. So there is bound to be legislation. Now, then, the question is, What have they before them for a pattern? The latest is the Armstrong product. I am not here to find fault particularly with the Armstrong provision. It is a little out of my line of business, but it is drastic and it goes too far in some ways for the best interests, I think. You can imagine what will follow when you know that 45 commissioners are favorable to a model code and think it is for the best interests of the country. You take it in many of

the States and the insurance commissioner is relied upon almost wholly as to what legislation should be passed. You take it in my State and Mr. Carroll—the chairman of the committee goes up to Mr. Carroll and says: "Here is a code, what do you think of it?" And what Mr. Carroll says about it will have a great deal of weight. These commissioners all have a great deal of weight if they are honest, and if they are not honest they are soon found out. So much for the model code.

One time when the commissioners met one of the things they decided would be a good thing was to eliminate all forms of assessment insurance, and they agreed that they would pass as far as they could in the several States some law prohibiting or curtailing assessment insurance. They sought the weakest point, which at that time was the State of Missouri, there being no local companies, and the Bankers' Life Association was the only company operating in the State of Missouri on the assessment plan. They said that will be a good point to start in to repeal the law. The bill was framed by the actuary of the department and put out as a department measure. The bill was reported in the insurance report of the commissioner, and I went down to see if I could show those gentlemen why the business should not be swept off the map. After six weeks of work through the State of Missouri the vote was 32 to 0 in our favor in the Senate. I convinced them that it was the kind of insurance that should be properly safeguarded, and that the insurance commissioner should have sufficient control under the law, so that if a company showed a tendency to do business that ought not to be done he would have the power to put it out of business.

The ACTING CHAIRMAN. Will you tell us what form of control you would suggest—how much power should the Commissioner have?

Mr. KUHNS. The rule has been applied generally all over the country that so long as a company pays its losses and conducts its business honestly and keeps a reasonable fund on hand, at least to the full amount of one assessment on all their membership, as an emergency fund, it shall be allowed to continue business. It is hard to set a standard to measure these companies.

Mr. LITTLEFIELD. What has been the experience in connection with assessment insurance the country over?

Mr. KUHNS. There have been large numbers of these companies that have failed the same as there have been large numbers of the old-line companies.

Mr. LITTLEFIELD. In connection with the failure of assessment companies, can you state what the failures were due to?

Mr. KUHNS. I think the failures in assessment companies have been largely similar to those in the old-line companies. The failures have been due to mismanagement and lack of interest, perhaps, in a great many instances. There has been a tendency not only in assessment companies but in other kinds of companies to see how much they can make out of the company for the managers of those companies, instead of seeing how cheaply they can carry insurance and how much money they could save out of the expenses to turn over to the policy holders. The one feature has been how much can we get for our own use. One company is patterned after our company. One of our agents got some money and he used our applications, and where it said "Bankers' Life Association" he stuck in the name of

another city. Then he would start a new Bankers' Life Association in another city. That company grew until they had about \$1,000,000 of assets. His provision was an improvement upon this plan. His plan was that all interest from every source and all the lapses from every source should forever go into the expense fund.

Now, the expense fund, you will understand, is a fund that is considered a legitimate fund to be used by the management—every dollar of it. If this company had followed out that idea, seeing how much interest we could take from lapses and all that, and spend it, we would have had three and one-half million dollars to spend for the management that we have saved for the policy holders, and I say that the failures have been largely due to that sort of thing. Instead of trying to conserve and look after the interests of the policy holders the question with them in some cases has been, "How much can we get for the management?"

Mr. PARKER. Do they have use for your provision that no one goes in after the age of 40?

Mr. KUHN. There is an age limit in most of them. When the company first organizes, the age limit is 65 years, and finally 50 years.

Mr. PARKER. You have got it down to 40, have you not?

Mr. KUHN. Forty for certain amounts. Fifty is our age limit. A man between the ages of 40 and 50 can get \$4,000 insurance. If he is under 40 he can get \$6,000. If he is over 50 he can get none.

Mr. PARKER. Your protection has come from that \$40 paid in at 40 years old on the \$2,000?

Mr. KUHN. That is what we are building on to take care of the increased age.

Mr. PARKER. Likewise limiting your expense to \$2,000 on the premiums?

Mr. KUHN. It averages about \$2,000. It is fixed this way: A sum equivalent to a 10 per cent assessment may be used for expenses—10 per cent. We call \$3. That is all we can use on insurance—one and one-half a thousand. But we do not use all of that, and we save \$100,000 and transfer it to the fund for the policy holders.

Mr. STERLING. Have you drawn on the guarantee fund in the last seven years?

Mr. KUHN. No; we do not draw on that until the death rate should reach 14, or something like that—twice the present death rate.

Mr. STERLING. By that time you think it would be ample to meet the increased risk?

Mr. KUHN. I think the company is permanent. I thoroughly believe that.

Mr. LITTLEFIELD. How fast is your business increasing?

Mr. KUHN. We wrote last year \$43,000,000 of business.

Mr. LITTLEFIELD. You had how many losses?

Mr. KUHN. Losses aggregating \$1,500,000 on all of the business.

Mr. LITTLEFIELD. How many policies did you sell, and how many men died? Could you give that?

Mr. KUHN. Last year?

Mr. LITTLEFIELD. Yes.

Mr. KUHN. The policies average about \$2,800, so that if you divide 43 by 3 you will have about 14,000 policies sold; and the men

who died would be about 500, would it not? Take \$1,500,000, and a third of that.

Mr. LITTLEFIELD. You are increasing that rapidly all the time—that is, you are taking in new blood all the time?

Mr. KUHN. Yes, sir.

Mr. PARKER. How many men went out last year on lapses?

Mr. KUHN. In insurance there were about seven millions, I should say.

Mr. PARKER. And how many people?

Mr. KUHN. That would be about 2,000 or a little over.

Mr. LITTLEFIELD. You lost 2,500, say, and took in 14,000?

Mr. KUHN. Yes, sir.

Mr. PARKER. That leaves over 10,000 some day to be taken care of?

Mr. KUHN. If they all stay with the company; yes, sir. A large percentage of them will lapse out before it is time to pay their death claims. A man may take insurance, for example, for the sake of his wife, and he carries it for her, and when his wife dies he allows it to lapse. He carries it just as he does a fire insurance policy, and when the wife dies he lapses. He has no further use for it. That is the case in thousands and thousands of instances.

Mr. AMES. You saved out of your new membership, last year, about \$500,000?

Mr. KUHN. Altogether.

Mr. STERLING. Let me ask you another question, if I may. You would not favor the amendment to this section either, would you?

Mr. KUHN. I objected to this section of the bill. I first came to Mr. Ames and said I thought section 66 ought to be stricken from the bill; that assessment companies ought to be allowed to do business. He said he did not agree with me, and after talking the ground over one way and another I said finally, "All right. If you do not want to allow them to do business hereafter, that is, new ones, at least allow those that are already in existence to continue business." That is the amendment that I have offered, and which I agreed to, which means that no more such companies shall enter the District than those that are already entered here.

Mr. LITTLEFIELD. That provision rather contains an indication that the business is not advisable?

Mr. KUHN. Yes. That is a slap at the business.

Mr. LITTLEFIELD. If it is feasible and wise, there is no reason why new ones should not come in as well as that old ones should continue?

Mr. KUHN. Yes, that is my suggestion. Why should it be stricken out?

Mr. PARKER. Ought it to be stricken out unless there is some restriction in the method of business?

Mr. KUHN. I should say they should be restricted and placed in the hands of the insurance department.

Mr. PARKER. That is a one-man power.

Mr. KUHN. No; a provision of law should be drawn to cover that.

Mr. PARKER. Have you ever thought up a provision that would make the thing safe?

Mr. KUHN. The statute books of the country have laws on that of one kind and another.

Mr. PARKER. I should say frankly that merely the provision that they have met their losses in the past year would not necessarily

imply that they would be safe if they ran over many years. There must be some provision to make them safe with guarantees of reserve.

Mr. LITTLEFIELD. Does your policy contain any guarantee in relation to this reserve?

Mr. KUHN. Nothing but that the reserve shall be used after the death rate shall have reached a certain point.

Mr. LITTLEFIELD. There is no stipulation as to the amount of reserve?

Mr. KUHN. No, sir; it is whatever the interest on these profits from lapses shall produce.

Mr. LITTLEFIELD. Do the policies stipulate that these lapses shall go to this fund?

Mr. KUHN. Yes; the contract provides that they shall go into that fund.

Mr. LITTLEFIELD. Then in a sense they do stipulate for a reserve?

Mr. KUHN. A reserve, but not a fixed reserve.

Mr. LITTLEFIELD. Yes.

Mr. PARKER. Have you a policy here?

Mr. KUHN. I have not, but I will get one and turn it over to the committee, if they so desire.

I started in to say a while ago, that where this particular section started in the different States, we defeated the measure in Missouri at that time, and two years later, when the Missouri legislature met, it was there again, and we defeated it the second time in Missouri; and it has appeared three times in the State of New York. It has appeared in a modified form in the State of Ohio, and we have had from time to time modifications of it in various forms.

Mr. LITTLEFIELD. Does the new Armstrong legislation in anyway affect the assessment business in New York?

Mr. KUHN. This amendment, here, is the Armstrong amendment.

Mr. LITTLEFIELD. As much as is suggested here in the bill?

Mr. KUHN. Yes, sir.

Mr. LITTLEFIELD. So that the New York legislation simply recognizes existing companies and practically forbids the formation of new ones of that kind?

Mr. KUHN. Yes; and it provides that if they want to they can change over to the other system of insurance. That is contained in this measure. So far as my own company is concerned, they do not want to change to another system of insurance. But I believe if you are going to drive out of business some fifty odd companies and annihilate them—I do not think that is the right thing to do—you ought to make some other provision for letting them give their assurance on some other plan. You could leave some avenue open to them, instead of wiping them off the map. This provision gives them the privilege of continuing on their present plan or taking up another plan.

Mr. PARKER. Where is the Armstrong provision in this bill?

Mr. KUHN. I can not cite just the section.

Mr. STERLING. I understand it is not in the bill, but in an amendment that has been prepared.

Mr. LITTLEFIELD. I understood him to say this amendment was substantially the Armstrong provision.

Mr. KUHN. That is what I said.

Mr. STERLING. The amendment takes the place of section 56.

Mr. KUHN. It is getting pretty close to 12 o'clock now——

Mr. PARKER. Go ahead.

Mr. KUHN. I have here a list of the classes of men who would be affected if this became a law: Expressmen's Mutual Benefit Association, the Insurance Clerks' Mutual Aid Association, the Telegraphers' Mutual Benefit Association, Workingmen's Cooperative Association, American Temperance Life Association, Degree of Honor, Physicians' Mutual Aid Society, Protective Life Association, Tradesmen's Life Company, American Protective Society, Masonic Life Association of Buffalo, the Commercial Travelers' Association of Utica, and about 40 other like societies.

That is the class of business that you would drive out if this went into effect. I wish to leave this with the committee.

Mr. PARKER. Very well.

[Memoranda filed by Mr. Kuhns.]

Section 56 of H. R. 18804, as it now stands if enacted into law by the various States, would needlessly work untold hardship on hundreds of thousands of citizens of this country by driving some fifty-odd associations and societies in which they have their insurance to the wall. Large numbers of the membership of these societies are advanced in years to an age where they can not get insurance in other companies at any price.

Something like 4,500,000 people carry assessment insurance of one sort or another, amounting to between nine and ten billions of insurance, or about one-half of all the life insurance carried in the United States.

The law for the management and control of these societies should give the widest authority to the superintendent of insurance, and whenever there is mismanagement or dishonesty, or even approaching insolvency, he should have full power to wind up the affairs of the company, or to bar from this District, if an outside concern.

Insurance in assessment associations is costing the members something like \$10 per thousand. It is well known that the rates charged by the level premium companies are such that thousands of men who have the protection of the mutual companies can not afford to carry old-line insurance, and if they are debarred from the benefit societies by adverse legislation they will simply be left without protection for their families.

To show the class of men that would be affected the following associations are cited.

Benefit societies that are sought to be driven from the field.—The Expressmen's Mutual Benefit Association, the Insurance Clerks' Mutual Aid Association, Telegraphers' Mutual Benefit Association, Workingmen's Cooperative Association, American Temperance Life Association, Degree of Honor, Physicians' Mutual Aid Society, Protective Life Association, Tradesmen's Life Company, American Protective Society, Masonic Life Association of Buffalo, Commercial Travelers' Association of Utica, and about forty other like societies.

If it is desirable to cut off the formation of this class of insurance company, instead of putting into the hands of receivers the interests of hundreds of thousands of citizens, the better plan would be to provide, as they did in New York, that those companies now doing business in the District or State may continue on their present plan, or a changed plan, but that no more shall be organized and no more admitted to the District or State. With this end in view I respectfully ask that the following amendment be adopted:

Amend H. R. 18804, Fifty-ninth Congress, by adding to section 56 of said proposed bill the following:

"Except those companies or associations now authorized to do business in said District and which shall have and maintain a reserve fund on their assessment policies or certificates equal to the net value of such policies or certificates valued as one-year term policies as provided in section 10 hereof, and *Provided further*, That any existing domestic assessment company or association may, with the written consent of said Commissioner of Insurance and upon a majority vote of its trustees or directors, amend its articles of incorporation and by-laws to conform with this act, and upon so doing and, upon procuring the official certificate of said Insurance Commissioner to transact the business

of insurance within the District of Columbia under such amended charter, the said corporation shall be deemed, so far as it may be, to have been incorporated under this act, and shall incur the obligations and enjoy the benefits hereof the same as though originally thus incorporated, and such corporation under its charter, as thus amended, shall be a continuation of such original corporation, and the officers thereof shall serve through their respective terms as provided in the original charter, but their successors shall be elected and serve as in such amendment provided: *Provided, however,* That such amendment or reincorporation shall not affect existing suits, rights, or contracts."

Just one word about the forms of reports that were talked upon yesterday. Some objection was made here to the publicity, and it was urged that they called for too much. There is one item called for in Mr. Ames's bill that I would like very much to see in there, and that is a provision calling for a list of all contested claims, giving the man's name, the amount of insurance carried, why the contest was made, and why it was not paid in full. That is a form I would like to see put out all over the country. It is, I believe, a very good thing.

There is another amendment on page 48, section 55:

That on and after the first day of January, nineteen hundred and seven, all policies of insurance, other than industrial policies, issued or delivered within this District, by any life insurance corporation doing business within this District, shall be in the forms hereby prescribed and not otherwise save as herein-after provided.

Mr. AMES. There is an amendment there, in line 20, after "in" insert "domestic."

Mr. KUHN. What I wanted to say about that was——

Mr. LITTLEFIELD. You could not comply with that?

Mr. KUHN. No, we could not comply with that. We have no overpayments. The old-line companies have overpayments and must return them. We could not comply with that, and I want to include also in that exception certificates on policies or certificates of membership of assessment associations. Amend section 55 by inserting in the twenty-first line, before the comma following the word "policies," the following: "and policies or certificates of membership of assessment associations."

Section 55 provides for a uniform policy in which forms are set out regulating the payment of premiums, the payment of dividends, loans upon policies, and modes of settlement. Assessment companies do not have premiums, do not pay dividends, and make no loans upon their policies. In fact, there is very little in this section that would be applicable to them from the nature of their business. Instead of premiums that are fixed and paid in advance, they make assessments after the losses have occurred, and the amount varies from time to time according to the needs of the company. Collecting the money for the payment of losses after the deaths have occurred, they know exactly what to collect, and there are no overpayments; hence no portion of the collections to be returned under the guise of a dividend. There are no overpayments or values from which to purchase paid-up insurance or extended insurance. There being no cash values to the certificates of membership, there is no loan value to them. It is for these reasons that the above amendment is asked.

Now, that is all of the Ames bill. There have been introduced here several other bills to regulate home industrial companies, and they include such companies as my own. One of those is H. R. 18894. I would like to have it amended so as not to include my company.

Mr. PARKER. That is amended by H. R. 19154.

Mr. LITTLEFIELD. That is drawn with the idea of regulating home industrial companies?

Mr. KUHN. Yes, sir. These companies here doing an industrial business—sick-benefit business, and so forth, and by this language it includes such companies as my own.

Mr. LITTLEFIELD. How does it embarrass you if you are not doing that business?

Mr. KUHN. It says that all companies doing business in the District shall have a certain form of policy, and shall deposit in this District \$100,000. The law of Iowa requires that we must deposit all our money in Iowa. We can not deposit in Iowa and here, too.

Mr. LITTLEFIELD. Do you make your deposits in Iowa in any public depository?

Mr. KUHN. It is with the auditor of the State.

Mr. LITTLEFIELD. Is that in accordance with the statute of the State?

Mr. KUHN. Yes; the statute of our State first prescribes the manner in which you may invest your money, in certain securities, and no other. After the securities are obtained you must deposit them with the State of Iowa, to be held for the company and for the benefit of the policy holders. We have some \$7,000,000 deposited in that way.

Mr. LITTLEFIELD. The law does not require you to carry a reserve, but if you do carry it, it must be carried in this way, so that the State depository of the company becomes the trustee of the policy holders?

Mr. KUHN. Yes. The funds are in the hands of the auditor of the State. That has been tried, and it has been held that the funds there are for the benefit of the policy holders. I have added an amendment here for H. R. 18894.

Amend H. R. 18894, page 11 of the printed bill, by adding after the word "corporation," before the period, in line 15, the following:

Provided, however, That no deposit as herein provided need be made by any company or association which has pursuant to the law deposited with the insurance department of the State in which it is organized, securities accepted by such department to the amount of one million dollars or more. Nor shall any company or association having such deposit be required to use the policy forms herein contained.

As I said, the reason for asking this amendment is that the law of the State of Iowa, also Indiana, requires that the trust funds of a life insurance company be invested in certain prescribed securities, and these securities deposited with the insurance department. This provision, of course, applies to the companies organized in those States. Manifestly, if the companies are required to deposit there, they could not deposit the same funds here, and without the above-suggested amendment, or one similar to it, the companies would be barred from doing business in this District.

I can make it \$100,000,000 if you want it.

Mr. STERLING. There is a substitute for that?

Mr. KUHN. Yes.

Mr. LITTLEFIELD. Is not your proviso a somewhat unscientific proposition? It seems to be merely arbitrary. It provides for \$1,000,000 or more, regardless of the amount of funds.

Mr. KUHNS. It provides—

That no deposit as herein provided need be made by any company or association which has pursuant to law deposited with the insurance department of the State in which it is organized certain securities accepted by such department to the amount of \$1,000,000 and more. Nor shall any company or association having such deposit be required to use the policy forms herein contained.

Mr. J. W. CAVE. House bill 19154 amends H. R. 18894, which eliminates that form of policies. H. R. 19154 gives the superintendent of insurance full authority to regulate that.

Mr. KUHNS. It would shut us out of the District as effectively as the other would do.

Mr. FOSTER. Why should there not be a deposit in the District?

Mr. KUHNS. A depository in any other State would be just as good.

Mr. FOSTER. Still a policy holder can only get it from that State?

Mr. KUHNS. No; we are doing business here, and you can reach it in the District. I think you have a right to bring us into court here, although our deposit is in the State of Iowa.

Mr. FOSTER. You can not be reached here.

Mr. KUHNS. That deposit is for the benefit of all the policy holders, and a policy holder living here would have as much right to it as a policy holder in Iowa or Indiana.

Mr. LITTLEFIELD. The court of Iowa would put it in the hands of a receiver?

Mr. KUHNS. Yes; the laws of Ohio and the laws of Iowa and Indiana require that the trust funds of a life-insurance company shall be invested in certain prescribed securities and the securities deposited with the insurance department of their own States. We might say that if the New York Life Insurance Company wants to do business here it must make a deposit of \$100,000 here. The Commissioner thinks they ought to deposit the funds. I think it is right that they should.

Mr. FOSTER. Ought not some security be given to the policy holders of a State by which they can be enabled to reach it?

Mr. KUHNS. No; if anything went wrong with the company it would be placed in the hands of a receiver for the benefit of all the policy holders. We have \$100,000 deposited in the State of Missouri, simply to cover legal expenses, or something of that kind.

Mr. BIRDSALL. The statute in Iowa authorizes the auditor to proceed at once to wind up the company and pay off.

Mr. FOSTER. That would require a man to go to Iowa in order to protect his interests in some form or other unless he wants to rely simply upon the efforts of the auditor of the State of Iowa?

Mr. PARKER. Mr. Kuhns, is there anything else you would like to say?

Mr. KUHNS. No, sir; I thank you very much.

Thereupon, at 12 o'clock noon, a recess was taken until 2 o'clock p. m.

AFTER RECESS.

Mr. AMES. I would like to call upon Mr. W. J. Graham, of the Actuarial Society, of Minneapolis, Minn.

STATEMENT OF MR. W. J. GRAHAM, OF MINNEAPOLIS, MINN.

Mr. GRAHAM. Mr. Chairman and gentlemen of the committee, I might say, in the beginning, that I have very heartily sympathized with the committee in the number of technical terms and technical words and phrases which they have had brought before them in these hearings—the preliminary term, the select endowment, the select and ultimate method, and all those things. I think that the different matters that have been brought before the committee here, of the needs of the young companies, and the proposed valuations in the Ames bill, about the terms, about the expense restrictions, etc., all follow from a few very simple principles.

To come to the first principles, the life-insurance business is a peculiar business, inasmuch as one must obtain the business at the start with the prospective idea of making it pay its way, to become a profitable stock company, to become profitable to the mutual policy holders, by the loadings that are on this business. The loadings are that portion of the premium above the net.

Mr. PARKER. We know that. We have been over that so much that we know it.

Mr. GRAHAM. I want to establish first, the term idea is in the Ames bill there. The Ames bill as it stands with this term idea provides the means whereby a young company can have the means of establishing itself and of providing for its business and operating under modern laws. The fact that so few companies have started within recent years is due, I think, to legal reserve restrictions which force a large legal reserve to be put upon the business which the business itself was not capable of sustaining.

Now, the situation has materially changed with the advent of the annual accounting, for which Mr. Ashbrook contended. There comes an absolute accounting of the company funds there, and it becomes impossible for those operating to go on under the methods heretofore followed by which the companies have previously put up the reserves for the first few years on their policies. The huge expense for the first few years which has characterized the practice in the past is also restricted there, and becomes impossible with the method of annual accounting.

With the annual accounting, therefore, it becomes necessary to make some change in the valuation laws, or to adopt some valuation law by which the company will have the means to proceed and to keep comparatively within the loading upon each year's business, or still within all the margins that it has for its business. I will not enlarge on that point.

I was going to speak, too, briefly upon the assessment business. There seems to be some dispute about the assessment provisions in the bill. Of course, the assessment companies differ from the old-line companies inasmuch as they can neither increase the business nor increase the insurance. The absence of assessments for the payment of death claims necessitates the putting up of an old-line

reserve. The history of the assessment business has been such that it has been thought wise in many quarters to restrict the business in so far as the incorporation of new companies is concerned. The Ames bill provides that those companies now existing can reincorporate, and it provides means by which they are to accomplish this end.

Mr. AMES. The amendment to the bill provides for that.

Mr. GRAHAM. No; in section 10 it is provided that companies can be reincorporated. I think that is a tremendously important provision in the bill, and I think myself that that provision is going to solve a large amount of the assessment problem. I think that the assessment business has been, to say the least, a very uncertain business, and at this time it looks as if there would be an increase in rates—an inevitable increase of rates—among the largest and hitherto most favorably held assessment companies or fraternal institutions working upon the assessment idea.

Without discussing the wisdom of reincorporating more assessment companies, we come to the fact that it looks as if the assessment business has within itself the inherent germs of danger, and as it has been conducted it has been unscientific, and it has been unprofitable, and the restrictions upon the formation of future assessment companies would seem to be in large part wise. Provision 10 of the Ames bill provides how these companies can reincorporate as old-line life insurance companies, and provides a way by which the assessment business can still be taken care of.

There are just one or two things I would like to say about the other features of the bill. I think the Ames bill as it stands can naturally be much improved. I think it is a throwing together of ideas. It is an evolution, and as such it is susceptible to radical improvement; but it is a basis upon which to work.

The four or five big things contended for there, included in the bill, are the publicity, and the loss and gain, and the accounting, and the standard forms; and then, too, that germ of Federal supervision—that portion of it that has been held to be the solution of some of the evils that have arisen or seem to have arisen under State supervision.

I call attention particularly to the voting supervision in the Ames bill. It seems to me there ought to be a method by which the policy holders of a life insurance company can organize and control the election of directors when occasion arises, not but that the agents will have their influence on the policy holders as they always have had, and always will, and not that the companies should have been better organized, but because it provides a means by which the actual control can be gained or an organization formed for the policy holders to follow out if necessity arises, if they take the actual control into their hands. And it seems to me it eliminates one great objection that has been held against this proposition, and that is the publication of policy holders' lists.

It has been very ably contended that such a publication lets down the bars to what is known in the business as "twisting," by which the rival agents of other companies get hold of lists of policy holders and try to get away the business of those companies. Then there is the publishing of a man's private affairs, a publishing of his insurance against his wishes.

In the matter or on the subject of the restrictions that appear in the bill, I think there are several restrictions in there that might be subject to modifications, such as the time when the first annual accounting should be made, and such as the restrictions on the contingency reserve. With an absolute system of annual accounting, by which the funds of the company are all accounted for, the necessity of a contingency reserve at once arises, to prevent unusual circumstances, panic, or financial depression, or anything of that sort from rendering a company insolvent, because all its funds are absolutely accounted for, and when accounted for become liabilities to the extent to which the different divisions are made.

It seems to me, upon reflection, that I think possibly I may have had a part in writing the first restrictive clause that was ever contemplated for legal enactment here about six months ago. On further reflection it seems to me that the idea of annual accounting, by which a company must account for its funds, largely solves a great many of the necessities of the situation, and I think with the annual accounting, in the rivalry that follows, it would be possible to very moderately limit the reserve, or to remove that limit altogether. In fact, I think that there is a danger in the accounting system by which every company must make a statement where it stands to its policy holders. I think with that absolutely legal demand the danger will be rather the other way—that the companies will be rather inclined to give too much—and that is legislating in an entirely new direction.

Then, as far as standard forms of policy are concerned, a number of comments have been made on that. As the Ames bill is amended, or as it is contemplated to be amended, it provides that the company can practically issue any policy that is free from ambiguity in the discretion of an insurance commissioner. I do not think there could be any possible objection to that, and I do not think a substitute clause to that would have any influence whatever in changing the present Ames bill. In fact, I think such a clause could be substituted for the standard policy section, greatly reducing the size of the bill without changing the intent or purport of the bill in any way.

Now, I will not take up your time, gentlemen, any more than to say that, after watching the course of the debate here, the criticisms that have been offered, a great many of them have impressed me in a great many ways, but they seem all to come down to the fact that the working out of this measure—the working out of the measures proposed in the Ames bill—should be very carefully done, and the restrictions should be very carefully considered. But the big facts of the bill stand out. It is a step toward uniform legislation. It is a step toward putting out a model that will be copied by other States, and that will prevent this confusion through reporting to a plural number of States and operating under radically different measures.

Mr. PARKER. Are you a company actuary?

Mr. GRAHAM. Yes, sir; I am.

Mr. PARKER. What rate of interest can you make your investment average, all through and in all?

Mr. GRAHAM. I should say a fraction over 4 per cent would be a fair answer. The average is very different in different companies.

Mr. PARKER. It would not perhaps be very different if it included all unproductive property as well as productive. You say your average is 4 per cent on all?

Mr. GRAHAM. Yes, sir.

Mr. PARKER. How much do you think it would be safe to allow at the present time for calculations for reserve, after taking out a reasonable amount toward expenses? Is $3\frac{1}{2}$ too high or not?

Mr. GRAHAM. I think $3\frac{1}{2}$ is very reasonable and conservative. I think 4 is safe.

Mr. PARKER. Do not some companies use 3?

Mr. GRAHAM. Yes, sir; they do.

Mr. PARKER. Which ones? Several?

Mr. GRAHAM. Yes; several of the largest ones use 3.

Mr. PARKER. Which ones? The most conservative old line ones?

Mr. GRAHAM. Yes; you might use that term; the old conservative, or you might say the wealthiest; the ones with the largest amount of assets.

Mr. PARKER. The "Big Three" of New York?

Mr. GRAHAM. Yes, sir.

Mr. PARKER. How about the Connecticut and New Jersey and Massachusetts Mutual?

Mr. GRAHAM. They use $3\frac{1}{2}$, largely. There comes to be a question as to the size of the reserve, and with a mutual company the tying up of money is intimately concerned with the question of the interest rates you use on the reserve. There may possibly arise a question in the future, when you may think the interest rate should not be lowered beyond a certain point. For instance, at the present time, for illustration, it would be absurd for any of these companies to go to a 2 per cent basis, to tie up reserves on a vast amount of money.

Mr. PARKER. I am only speaking of safety; not as to policy.

Mr. ASHBROOK. I think the Armstrong bill forbids a lower rate than 3 per cent.

Mr. PARKER. This present bill allows any lower rate that can be selected. What company are you for?

Mr. GRAHAM. I am with the Northwestern National Life just now, but I have been associated largely with the gentlemen who considered these measures.

Mr. PARKER. That is not the great Northwestern Mutual?

Mr. GRAHAM. No, sir.

Mr. PARKER. Is there a representative of that company here?

Mr. GRAHAM. No, sir. I merely wanted to say, from my observation, that I think the bill has got in it the elements for making a great law and doing a wonderful work. In the criticisms that have been made, so far as I can see or recognize myself as being—

Mr. PARKER. We will have to determine upon that—those general questions. Are there any special matters that you wish to speak of?

Mr. GRAHAM. No, sir.

Mr. PARKER. Then we are very much obliged to you.

Mr. AMES. I would like the committee to hear from Commissioner O'Brien, of Minnesota.

ADDITIONAL STATEMENT OF MR. THOMAS D. O'BRIEN, STATE INSURANCE COMMISSIONER OF MINNESOTA.

Mr. O'BRIEN. Mr. Chairman and gentlemen, there have been so many misconceptions in regard to this bill, and so many strange statements made concerning its scope and effect, and as to the motives underlying the persons who framed it, that I consider it a great

privilege to take up your time again for a few moments for the purpose of putting some matters on the record here; and if in doing so I am guilty of the bad taste of referring to myself occasionally I hope the committee will fully realize that I do it only because I think this matter should be fully explained.

Early in the year the Ames bill was prepared by Mr. Ames. When the committee met in Chicago the Armstrong bill was not reported. Everything was delayed until that date. When the committee met again, on the 20th of March, the Armstrong bill was reported, and what I consider the chief features of the Armstrong bill were, according to their report, incorporated and added to the bill prepared by Mr. Ames. Since that time the report of the Armstrong committee has been amended, and the bills, as finally passed by the New York legislature, are considerable different from the form in which they appeared in the report.

It was always the idea that this bill should be amended to conform to the Armstrong bills as they finally passed the legislature of New York. To this has been added two or three sections, to which I will refer, which were original with myself.

I disagree totally with every person who has condemned in a sweeping manner the work of the Armstrong committee. It not only was a most thorough and exhaustive examination of the great companies controlling nearly one-fortieth of the wealth of this country, and an examination of questions that must affect the citizenship of this country for many generations to come, but in the formation of the bills and the presentation of them to the legislature of the State of New York that committee, to my mind—both the committee and its counsel—occupied a most patriotic attitude and performed a most patriotic part; and from day to day and from week to week the people of the United States watched for the time when a break would come in the work of reform which that committee was committed to, and it never came; and up to the time of the adjournment of the legislature my judgment is that that committee stood absolutely for what was right, and tried to do the best they could with regard to insurance. For my part the report of the Armstrong committee and the bills which were passed by the legislature of New York are similar to the pillar of cloud by day and the pillar of fire by night, and I do not think this committee can do any better than to study and analyze the Armstrong bills. And if any member of this committee supposes that there is any idea of lessening or depreciating their work or antagonizing those bills, I assure them it is not in the minds of those who got up the Ames bill.

On some matters that I will speak about I have not been able to agree, but I am not prepared to say that they are not right on every one of those propositions. The Armstrong committee developed a condition of things which was known to many people to exist before those disclosures came out. It developed the fact that the great evil in life insurance, so far as the large level premium life insurance companies were concerned, consisted of the deferred dividend plan. The premiums charged by life insurance companies are based upon the actuaries' tables, giving a statement as to what number of men will die each year out of a given number. To that is added an estimate of the expenses of the company, and an estimate of the amount

that the company will earn upon its securities. In a mutual company, if these calculations were exactly true, when the last insured died the last dollar of the company would be paid out.

That is the theory upon which it is based. But the tables very wisely make very large allowances upon all those points. The companies suffer, and I will state it generally, from 15 per cent up, of the mortality that they expect, and I am informed that the majority of actuaries consider that what is gained each year in the lack of mortality is a complete gain to the company—that is, if it is not added on every year it is a complete gain. The average company earns much more upon its security than the calculated interest requires. The average company might—it does not, but it might be conceived that it would not, spend its entire loading. Those savings belong to the policy holders, and should be paid to the policy holders, because, after all, it was the extra amount that was charged to avert contingencies.

Under the deferred-dividend system only the policy holder who survived the tontine period received any portion of those amounts. The policy holder who lapsed got nothing on account of the savings. He only got the surrender value. The policy holder who died only got the face of his policy, which was carried by the net premium; and I am within the truth, I think, when I say that only one policy holder out of three survived and kept his policy in force. I think not more than 38 or possibly 40 per cent of the policy holders both survived and maintained their policies in force to the end of the tontine period.

These policies carried by the deferred-dividend companies provided that the policy holder must accept such portion of the dividend as the company managers put into his hands and allotted to him, and that provision of those policies has been sustained by the courts of New York and the courts of the United States. The matter was further emphasized and fastened down by the enactment of section 56 of the New York code, which provided that no one could bring an action against a domestic insurance company to compel an accounting or ask for a receiver or interfere with the management of that company other than the attorney-general or the insurance commissioner, or the attorney-general on the written request of the insurance commissioner; so that there were in this country at that time corporations controlling over \$1,000,000,000, owned absolutely—possibly the Equitable might be considered something of a stock company—but owned absolutely, otherwise, by the policy holders who had contributed the money.

Other people had no interest in it except those policy holders, except in the holding of offices and in earning their salaries thereby; and not one of those policy holders could ask an accounting and bring that company into court, to know whether he was receiving his just dues. So that I say the beginning and end was the deferred-dividend system, which permitted the accumulation of this vast surplus for which they were not accountable. It led to extravagance in the company. It led to this mad race for business, and if the movement is successful in which the Armstrong committee has led the way, the absolute abolition of the deferred-dividend system, I think, would do the greatest possible good that can be done by one thing, and it will be done. I think it is one of the chief elements in this bill, and I think this bill should conform to the Armstrong bills in every respect.

It is claimed, with some show of force, that the company should not be compelled to distribute all of this surplus; that there should be a certain amount for contingency reserve allowed to be held by the company year after year. That may be true. Then in the case of fluctuations of securities it would be dangerous if a company were compelled to distribute all of what Major Ashbrook so well described as "change." That is true, but there are only three companies in the United States that would be affected in the slightest degree, or in my judgment would be effected in the present century by the percentages that are contained in the Ames bill or those contained in the Armstrong bills; and if a general proposition was made that every company should be allowed to retain 10 per cent of its liabilities as a contingency reserve, the evil that has been spoken of as an accumulation of large surplus funds in the hands of the large companies would not be reached. The New York Life to-day has only a thirteen and a fraction per cent reserve above its liabilities, so that the only way it can be reached is, first, by saving a certain percentage, which in the case of a small company would be entirely fair, and then fixing a lump sum beyond which it could not go, no matter how large the company might be.

Now, I claim that is not a dangerous or harsh proposition, because, gentlemen, it is true that a run, in the sense in which that term is used in regard to savings banks or other banks, is impossible in regard to a life insurance company. The commissioner of insurance might find a company technically insolvent; there might be danger of that, but so far as there being an actual run on an insurance company that is absolutely impossible. Still, in order that no possible harm could be done, a reasonable contingency reserve should be allowed, and that is provided for in this bill.

These large companies were engaged in participating in huge syndicates, not always with the intention of purchasing the securities which were syndicated, but speculating in the securities for the purpose of making what could be made out of them when placed upon the market—a transaction which, in my judgment, is illegal in itself. The investments of an insurance company should always be in the actual property, and its participation in a blind pool or syndicate, in which it does not know how much it will receive, or when the amount is paid over to it it is unable to tell whether it is the correct amount, is illegal in itself. As I had occasion to tell the directors of some of those companies, had those syndicates resulted in a loss, in my judgment each director would have been undoubtedly liable, because he had invested in securities in which the company had not participated, and such a participation was an ultra vires act.

Some of these large salaries in these companies went to the extent of \$150,000 per annum, and that extravagance in salaries continued all along down the line.

Mr. TIRRELL. Are any of those insurance companies limited, as savings banks are limited, to certain lines of securities in which they can invest, while in others they are not permitted to invest?

Mr. O'BRIEN. All of them are. The companies have insisted upon making a gain and loss exhibit. The gain and loss exhibit is a statement of how much they have gained upon this mortality that I have spoken of; how much they have gained on the rate the legal reserves were obtaining and the actual interest; how much they have

gained or lost on the loading, the sum approximated for expenses; and, as I say, it has been universally resisted by the Armstrong committee.

This Armstrong bill provides for annual reports in which the salary of every officer receiving more than \$5,000 a year shall be given; that the date of the purchase of their securities, the name of the person from whom they are purchased, and the character of the securities that they purchase shall be given. It is provided further that there shall be a statement of the gains and losses upon the various kinds of business, and in many other matters this is the report that is called for in the Armstrong bill. The annual report is luminous with information, and would produce the greatest publicity possible.

Now, it is true that at the present time every company reports in the manner in which the report is called for by the commissioners—the insurance commissioners of the State. It is true that the insurance commissioners have adopted a most excellent form of report; and, Mr. Chairman, may I stop the thread of my argument here to say that in my judgment—and I do not speak so much as an insurance commissioner, but as a man who has simply looked on for the last year and tried to find out the situation—in my judgment there is no class of supervising officers in the United States who have so well performed their duties as the insurance commissioners. I believe insurance supervision has been superior to railway supervision. I believe that insurance supervision has been superior to the supervision of banks. I know of nothing where the great police power of government has been executed that has been so well carried out as has been the work of the insurance commissioners of the State. And when I speak here, asking that there be cooperation between the Federal Government and the States, I am not belittling my office or that of other commissioners of insurance because of any failure of duty on the part of insurance commissioners of the States. They are a high-minded, intelligent, able class of men. Probably there is not one of them in the United States who is not a superior to myself, both in knowledge and ability, and I certainly have the highest respect for them.

I believe that this bill affords an opportunity for cooperation. I do not stand here for less supervision, even if it were upon a question of taxation, because as a matter of fact statistics show that when all the reports are taken together, these large companies have paid something less than 2 per cent on their entire gross income for taxes and departmental management—considerably less than 2 per cent, and I know of no other business that is carried on at so low a cost as that at which the insurance companies carry on their business.

Mr. PARKER. Per cent on premium, not on investment?

Mr. O'BRIEN. I am speaking of their gross tax.

I say that this annual report provided in the Ames bill is the greatest step toward publicity that can be imagined.

With those two things, with the abolition of the deferred dividend system, the compulsory annual accounting and distribution to the policy holders, and with this enlarged and additional annual report, we have not only publicity in its highest sense, but we have at the same time competition, and that is a matter that should by no means be lost sight of, because without competition publicity alone would

probably not be sufficient. This bill differs from the Ames bill in the method of computing the valuation of policies.

Mr. PARKER. This bill differs from what bill? Do you mean the Armstrong bill?

Mr. O'BRIEN. Yes. This Ames bill proposes the preliminary term system of valuation rather than a select and ultimate system. You heard Mr. Dawson upon that, and I can add nothing to what he said. He is the originator and author of the select and ultimate theory. He said that the modified preliminary term was a safe and sound method of valuation. I am willing to let it go upon his statement. He described it as a modified preliminary term, and I believe this bill should be modified so as to carry out that situation. I believe we ought to stop with a preliminary term at this time, because the preliminary term is conceded by Mr. Dawson himself to be a safe and proper provision. The select and ultimate method of computing has not yet been sufficiently tried so that we can know that it will be sufficient, and I believe that under the modified preliminary term, as it is called, small companies will have a better opportunity, both for organization and for success, than they otherwise would, and I heartily sympathize with the principle that a large number of small companies is better than a small number of large ones. Many of the evils that have afflicted the insurance business have come from that position.

Now, that is different, as I said, from the Armstrong bill. Another marked difference from the Armstrong bill comes from the limitation of expenses. The expenses hitherto have been absolutely and entirely extravagant. The limitations on expenses of the companies for acquiring new business, the management of the companies themselves—and of course I am speaking only of some companies—have been out of all reason, and whatever is necessary to stop that should be done. It is a new principle in legislation to attempt to regulate the cost of any article by saying how much the expenses shall be of the person who is engaged in producing that article, and I confess that I am not yet satisfied that a hard-and-fast rule, limiting the amount of money that all companies under all circumstances shall spend, is the proper way of reaching this evil.

We do not attempt to regulate railroad rates by providing a limitation of the expense which the railroad companies shall incur. We do not attempt to regulate any public-service corporation by doing that. The rate is fixed, and the company is left to work out the details of the management itself. I believe that with the annual accounting and compulsory distribution of assets and the increased publicity which is brought about through these annual reports the competition which will be introduced under these circumstances will compel every company to regulate its expenses and bring them to the lowest possible point, and I believe that it is safer at this time to legislate along well recognized lines. In other words, it is safer to take our position upon grounds as to which there can be no reasonable doubt than to go to the extreme length of actually limiting the expenses which any company shall incur at any one time.

This question has never come before a committee of this sort before. It has never come before a body of men of the dignity, intelligence, education, and research of this committee, so removed from the influence of any particular section of the country, from any political

influence or the influence of any insurance companies. If in your judgment you believe that this limitation upon the expenses of the companies can be perfected and worked out, in heaven's name put it on, because the expenses have been too great and too much, and no public officer would perform his duty who did not say that to you gentlemen who are considering this question.

The same conclusions apply exactly to the limitation of business, and I will not take up your time on that.

Mr. BIRDSALL. Under the policy of forced distribution annually of dividends, upon what basis would you value assets?

Mr. O'BRIEN. That would make no difference in values. That has no effect in the valuation of policies, because they only pay such dividends as they have, and the dividends are always above the reserve, whatever reserve they have.

The distribution of annual dividends, of course, is not at all a new and untried proposition. I think possibly a majority of the companies that are represented at this hearing have annual dividends; at least several of them, and those are the companies as to which no scandals, or the least scandals, have been developed. There are many absolutely honest insurance companies, officered by gentlemen, some of whom you heard here, who would no more deceive or by indirection take money of the policy holders than they would pick your pockets; and many of those gentlemen fall into the fallacy of thinking that, because that is true, legislation is not necessary, and all that is necessary is honesty.

Mr. TIRRELL. What is your ground for saying that a large number of small companies is better than a small number of large companies?

Mr. O'BRIEN. Because I do not believe that it is advantageous to the general welfare of the country that great colossal aggregations of wealth should be centered at any place.

Mr. STERLING. Have you ever thought of any plan by which that might be avoided and still secure entire safety to the companies?

Mr. O'BRIEN. No, sir; I have thought of the idea of compelling companies to distribute their investments. The New York Life Insurance Company has \$317,000,000 in bonds. It has \$25,000 in mortgages—

Mr. ASHBROOK. \$25,000,000?

Mr. O'BRIEN. Yes; \$25,000,000 in mortgages, and \$317,000,000 in bonds. I have officially criticised that policy. I believe that money should be invested throughout the States where the company is doing business. But if you attempt to say they must invest a certain portion of their reserve in each State, there again you come at once to the proposition that such a law might act disastrously upon some of those investments in some of the States. I have arrived at no solution of that subject, except that I believe it to be the duty of every one charged with responsibility in this matter to assist, along proper and reasonable lines, the small companies that are scattered throughout the United States.

This bill is new in its provisions regarding the insurance department of the District of Columbia. Let me make a confession at once, that I am not familiar with the details of legislation in this District, and when I came here I did not know the distinction between a Department under the direction of the Department of Labor and Commerce and under the Commissioners of the District of Columbia. I

do realize now, but I did not at that time, that one is a Federal officer and the other is a municipal officer of the District. Is that right?

Mr. PARKER. In a way. One is a Federal officer for the whole Union and the other is a Federal officer for the District of Columbia, although both are under the United States Congress.

Mr. O'BRIEN. Now, I can not express myself, and you do not care to hear me express myself, upon the work that the insurance commissioners throughout the United States have done and the admiration I have for those men; but I do not believe there is one amongst them who does not feel daily that he is utterly unable to perform the duties that are imposed upon him. To a conscientious man the work of supervising these companies is appalling. When you take into consideration the fact that the natural inclination we all have is to be courteous one to another, in the comity between the States, the difficulties are added to, and the object of this bill, as I said before, is simply to place the great Federal Government—which is as much my government as is the government of the State of Minnesota—place that at the disposal of the States, if they see fit to use it; and at the same time it would be an inspiration and of the greatest benefit to the insurance commissioner. If an insurance commissioner leaves his State to go out and examine a company of which he is doubtful, he is met at once with the cry that that examination is a perquisite of the insurance commissioner.

In some of the States it is a falsehood. I drew the insurance bill of my own State, and there is absolutely no perquisite to the insurance commissioner. The additional compensation he receives, aside from his necessary expenses, belongs to the treasury of the State, and goes into the treasury of the State; and his expenses can only be paid after they have gone into the treasury of the State and have been drawn out upon a proper voucher. But as I say, he is met with that statement. If he does not make an examination he is oppressed with the idea that he has not performed his full duty; and gentlemen, this whole system is one of the most important matters connected with the citizens of the United States. The companies require more supervision, and not less supervision; and the object of this supervision is to give an opportunity for just such a thing as that, and to build up a great central department here. Maybe it is not possible; the limitations of human nature may be such that it is not possible; but if it can be done it would be a great and holy work, and as I say, that is one of the leading original features in this bill, for which, if it is not a good provision, I myself must take the responsibility of having made the suggestion.

This bill follows the standard forms in its final provisions. The idea is that it will follow the standard forms proposed by New York, with the additional provision that the insurance commissioner may allow any other form.

I say it with the utmost deliberation, that this country is flooded with policies which are ambiguous, misleading, and dishonest; and I say without hesitation that the worst of that is not in the large level premium life insurance companies, nor in the companies that were subjected to the severe criticisms of the Armstrong committee. And as I said before, this country is also filled by insurance companies—such companies as are represented by the gentlemen who have appeared before you—whose conduct and treatment of their policy

holders must be edifying and gratifying to those who examine them. It was because of the fact that the first duty I had to perform in my official position was to force out of the management of a company officers who had betrayed their trust, a company that maintained and carried a mass of policies of the kind that I have spoken of—it was because of that and other experiences that months ago I believed and stated that standard forms of policies had practically come to be a necessity in this country. The overwhelming difficulty of the task drove me from my position, and I practically abandoned it; and it was revived, not by my suggestion, but it was brought out by the Armstrong committee, and embodied in the law of New York, and I believe earnestly that it is possible to have standard forms of policies.

These bills may not be right. There ought to be considerable leeway given. There ought to be new forms allowed. But it is not in my judgment an impossibility; and if standard forms of policies can not be introduced there is a growing necessity in this country now for some sort of restriction to be placed upon the kind of contracts that can be put out on the unsuspecting public.

Gentlemen, in this matter you are dealing and treating with absolutely the entire savings of many of the laboring people of this country, of men who receive only moderate daily wages, and who at the same time are trying to make provision for their wives and children—men unskilled, illiterate; and I will say that it would take Major Ashbrook or any of the actuaries that have come before this committee many, many hours to analyze and understand a vast number of the policies that are issued in this country by one company or another—not by their companies, but by many companies that are scattered throughout the United States. And you must remember that that unskilled and illiterate man has got to meet the adroit, alert, talkative insurance agent, who rolls up an immense mass of figures, and the result is that man takes out a policy believing it to be one kind of policy, and it no more resembles the contract he believed he was buying than I resemble Hercules. Whether this can be accomplished or not, I say there is an absolute growing necessity for it.

This bill contains an original proposition, original in its present form, with regard to the control by policy holders of the management of mutual companies. It is taken in part from the law of Massachusetts. It is taken in part from the by-laws of an Australian company that has been very excellently managed. It embodies the representative form of government which we find in fraternal insurance companies. It contains the feature of cumulative voting, which I think ought to be introduced, not only in all corporations, but into every portion of any government where there is a board of a certain number to be elected, and where I believe a minority ought to be represented; and I believe it furnishes the manner by which in a crisis the policy holders can take possession of a company and do what they please with it, just as the people of the United States can take possession of this Government and do what they please with it, electing whom they please and when they please. I do not believe in the divine right of any officer to remain in control of any other person's property.

This bill differs from the Armstrong bill in that it does not provide for publishing the lists of policy holders; and there, again, we are met

with a position that seems to me is of doubtful propriety. If in your judgment it is necessary to publish the lists of policy holders, to enable the owners of the property to compel the management of the company to publish lists of its policy holders, let them do it. There should be no limitation put upon these men to at least threaten the officers of those companies that, unless they do things properly, they are liable to be expelled.

But expert insurance men tell me that if lists are published rival men will "twist" the policies issued by other companies, as they call it, and get the policy holders to lapse in one company and take out insurance in another. They tell me, also, that it would disturb the confidential relations that exist between the policy holder and the company, and would make everybody's business public. I can not but admit the force of the objection, and I would not receive such lists myself unless they are absolutely a public document, because I would not want to be accused of selling the lists, or giving them out, or furnishing the names of policy holders. If they come into the department at all, they must come in as a public document.

I believe this bill provides the means by which policy holders in the case of a crisis can take possession of a company. But in the case of these large companies, it goes without saying that when there is no crisis the proceeding is altogether too cumbersome for them to resort to it, and therefore they never will.

Mr. STERLING. Now, as to that fear that competing companies would solicit the business away from policy holders, does not that apply to every other business?

Mr. O'BRIEN. Yes.

Mr. STERLING. Does it not apply to railroads? Can you not see who the shippers are on every railroad, and accordingly if all companies are bound to disclose their policy holders it is an equal chance? They have all got the same opportunities.

Mr. O'BRIEN. That is true.

Mr. BIRDSALL. But would you think of requiring a savings bank or any other bank to publish a list of its depositors?

Mr. O'BRIEN. No, sir; there would not be any necessity for it. Savings banks are organized not on the vote of depositors, but in some States they are a stock company, and in some cases the trustees are self-perpetuating. They have the power to elect when a director dies, and the depositors never vote. But I have been impressed with other arguments, and I can say this, as an illustration, that in the case of a company which is on the balance, hovering on the balance, between going down and being maintained—particularly if that is a company where certain legal attacks could be made upon it and courts could be driven to apply a harsh rule upon such a company—the publication of lists of policy holders would give an opportunity for the gathering together of policy holders to commence litigation that might destroy the company. That is not always advisable. Take, for example, a company that is reorganized from an assessment company, where no reserve has been accumulated on account of policy holders. The policy holders may have become old men, or they may not be in good health and can never get any other insurance; and if the company is saved their families will get the insurance at the time of their death, but if the company is destroyed they will get nothing, and the policy holders can not buy any new insurance.

In such cases it is very often highly desirable, in the exercise of a supervisory care, to protect a company, if it can be protected in that way, in my judgment.

Mr. BIRDSALL. If the object in that publication is to enable one policy holder to learn who the other policy holders are, why could not that object be attained by a provision that any policy holder would have the right to inspect the books of the company to ascertain who the policy holders were? Such a provision is made in many statutes with regard to corporations. They are required to keep a stock book open to the inspection of the public generally in many States, but in all States to the inspection of stockholders interested in the company.

Mr. STERLING. That is what they have been denying in the past.

Mr. BIRDSALL. If the sole object of the publicity is for the benefit of the policy holders, I do not see how that could not be obtained more easily in another way.

Mr. O'BRIEN. Whatever objection there would be to one method would also obtain as to the other, and one is just as effective as the other. I believe myself, my best judgment is, that the great reason for opposing it would be to prevent combinations among policy holders. I may be doing injustice to reputable companies in giving that as one of their reasons. I can only, of course, give what arguments have come to me in the course of time.

Gentlemen, I have given you the history of how this bill was proposed, and I will close simply by saying that it has been an inspiration for me to address this committee. It has been an epoch in my life. We did not believe that we were presenting a perfect bill. In my correspondence with reference to this bill I said it was imperfect. In the President's message transmitting it to you he said it would require amendment. We of course realize that, and the changes, of course, in the Armstrong bills necessitated that; but I desire to say you have before you a skeleton bill which at least suggests almost every question connected with this very important subject, and sooner or later you gentlemen would have to go over this bill item by item and line by line for the purpose of determining just what your action will be. I thank you.

Mr. PARKER. Is there a gentleman here from the Mutual Fire Insurance Company of Washington? I understood there was one here a few minutes ago. He said he had an objection to some clause—I am not sure what the clause was.

Mr. DRAKE. That was Mr. Boutler. He is not here now.

Mr. PARKER. Do you know what his objections are?

Mr. AMES. I think it was as to the size of the capital stock.

Mr. PARKER. Mr. Ashbrook has something to say, I believe, on the subject of contingencies and reserves, in addition to what he said the other day.

STATEMENT OF MR. FRANK T. EVANS, OF WASHINGTON, D. C.

Mr. EVANS. Mr. Chairman and gentlemen, I trust that I shall not tax your patience beyond the limit, after hearing so much in connection with this subject. At the same time there are certain points of extreme vital interest not only to gentlemen representing the assessment, sick, and accident insurance companies of the District, but

some thirty thousand or more policy holders, members of those companies. I will not endeavor to touch upon the points that have already been treated exhaustively, but try to throw some light, if possible, where heretofore I have heard no explanation that seemed to be a proper and thorough exposé of the situation.

Mr. PARKER. What part of the bill do you speak to?

Mr. EVANS. I am now going to treat on the application of the Ames bill—the bill introduced in the House—the last bill by Mr. Smith, and the subsequent bill introduced by Mr. McGuire, both of those bills relating exclusively to our class of insurance.

Mr. PARKER. May I ask whether the Ames bill, which says that the present companies may remain and others may not, will be satisfactory to you?

Mr. EVANS. Do you mean the amendment of clause 56?

Mr. PARKER. Yes.

Mr. EVANS. I might say that I would have to couple that with another condition; but if you will allow me, I would like to be permitted to answer that later.

I want to say, gentlemen, that the first thing that I would like to speak to, is that there is great apparent misapprehension relating to this particular class of insurance. In the first place this class of insurance is a unique class, and is practically unknown excepting in the District of Columbia and several contiguous States. You have heard several gentlemen speak of assessment insurance. I might say, gentlemen, that there are as many kinds of assessment insurance as there are apples. They are all apples, but many different kinds; some are good and some are not so good.

Now, the great misapprehension that has existed has been caused by general misapprehension in regard to assessment companies, that they must necessarily be weak, unsound, or in some way liable to go into future bankruptcy. I think, gentlemen, if you understood the conditions that existed in the District of Columbia for some twenty-five years, you would agree with me that that condition can never exist under the present régime of doing business. The great trouble has been that assessment insurance, or natural premium insurance, has usually been founded upon what was estimated to be the present mortality, coupled with a sufficient loading for expenses, with practically no provision being made for the natural increase in the mortality from the company getting and acquiring old members. Now, of course, that is a natural result, if you are only going to charge the present mortality with sufficient loading of expense. If on the other hand you adopt a safe and sound rate of assessment, a rate that not only secures the company under present conditions, but will guarantee you against ever having, under ordinary conditions as least, to make an additional assessment, then, gentlemen, you have something that should be just as good as level premium insurance.

Mr. TIRRELL. That is one trouble, that none of them have ever gotten to that point.

Mr. EVANS. You will pardon me, but this is the only class of insurance that has demonstrated for twenty-five years—and that is sufficient time—that it is absolutely on that basis. In other words, through the wisdom of the persons who first inaugurated this class of insurance they adopted an assessment rate that has proven thoroughly adequate, so much so that it has never been changed.

That additional assessment has never been changed, so that every company without any legislation to guide it, excepting the general incorporation laws—and I say this advisedly—every company conducted on honest principles has succeeded.

Mr. STERLING. For how many years?

Mr. EVANS. It began, as near as I can remember, about twenty-five years ago. In Maryland they have been conducting that class of business beyond the time we have here. Since 1887, and before, we have had it here, and certainly we have demonstrated beyond any shadow of doubt that our basis is thoroughly sound.

Mr. PARKER. How do your rates compare to those of ordinary life insurance?

Mr. EVANS. You can not compare the rates, and I will tell you why. We are not ordinary rate companies—that is to say, ordinary life assessment companies. Of the entire disbursement for sick, accident, and death benefits, about 80 or 90 per cent are for sick and accident, maturing and being paid out during the lifetime of the member. The amount of the benefit paid as a death or final liability is comparatively small, very small; in fact, averaging according to the last statistics here in the District about \$50. The result of that is that the risks are so evenly distributed that there has been practically no increase in the mortality between the twenty-years-old company and the three, four, or five year old company.

Mr. PARKER. Have your companies mostly a limit on the amount of policies for death? What amount are they authorized to issue?

Mr. EVANS. There is a clause, which Mr. Davis yesterday treated of, that they should not issue policies in cases of one assessment, but without any other proviso the companies have built up by sound conservative business methods; in fact, they had almost a uniform policy for some years, and a uniform rate.

Mr. PARKER. What are your largest policies under that business ruling?

Mr. EVANS. I think that one company here has some policies as high as \$500. The majority of the companies issue nothing in excess of \$100.

Now, I am only giving you this preliminary talk to show you one phase of this situation that has not heretofore been presented—that is to say, that when you have heard the discussions concerning assessment insurance you can not apply the rules to our class of insurance. The second thing is that this is industrial, pure and simple. I wish to say one thing which I think in justice to the companies I might mention at this time, our worthy superintendent of insurance made in the course of his speech yesterday or the day before a statement that several companies in the city had refused to comply with certain regulations as to their annual report. I have to differ with the superintendent on that point in this way, that in the present code, if you gentlemen will read it—section 653—there is provided a manner of report which is so clear so far as it goes, and so specific, that there seems no question that it applies to us and to us alone.

We did not, when the department of insurance was first opened, object to filing with the superintendent a form of report similar to that required of the old-line companies. He did not ask us to comply with section 653. We had no objection to filing reports; anything on

earth that we were capable of getting he was welcome to. But coupled with that was a condition, and that condition was that we should pay upon our premium receipts $1\frac{1}{2}$ per cent as a tax. Now, the learned counsel employed by these companies did not think that we were under that clause of the law. However, in conference with the corporation counsel and the department, we said: "Gentlemen, the law says that this shall be paid upon the net premium receipts;" that is the language of the law, while our companies were classified as life and assessment, a different term, as you will observe by reading it.

However, we said the word "net" must be construed, and he agreed with us; and the corporation council presented a construction that if we were permitted to conduct after inquiry concerning cost of purchasing the insurance—the money never in fact coming into our hands in a practical manner, but what we call the ordinary—that is, the percentage allowed for the collection of money—we would pay the $1\frac{1}{2}$ per cent upon the remaining, without questioning the fact that we did not believe we were taxable at all. The first year, in fact, when he presented this, the department acquiesced, and we paid this tax, filed the report, and there were no questions asked. The next year we were requested to change that construction of the statute, and to pay upon our gross premium or assessment receipts. Now, there was a new proposition. We could not realize nor contemplate for the moment that the word "net" could mean gross. I find it, as defined in the Ames bill here, in this language: Net assets (page 2, line 4) means "the funds of the insurance company available for the payment of its obligations within the District of Columbia," and so on.

Mr. PARKER. That is not net premiums. Your taxes were on net premiums, but this is net assets—a different thing.

Mr. EVANS. I make only the construction of what constitutes "net" by the best actuaries of the country. They vary but comparatively little in their definition of what constitutes "net." We paid in 1903 the taxes upon our gross receipts under protest; not willingly, but under protest, in accordance with the wishes of the department, and we filed the reports just the same. In 1904, our counsel advised us that it was a wrongful, injurious, and burdensome feature to require that of our small companies, which earn very little, have very little territory in which to do business, and severe competition. We put the matter again before the department corporation council and before the commissioner, and they ruled against us, with the final result that we were forced to take judicial proceedings at the request of counsel, and that is still in course of determination.

Mr. PARKER. How many of these companies are there in the District?

Mr. EVANS. Fourteen local companies.

Mr. PARKER. How much capital do they run from?

Mr. EVANS. They run from one to five thousand dollars.

Mr. PARKER. How much is the largest amount of risk out in any one of those companies?

Mr. EVANS. I haven't at hand the report for the last year, but I should say \$250,000 to \$300,000 would cover the contingent liabilities on policies for any one company; running from \$25,000 up.

Mr. BIRDSALL. What is the percentage in your company?

Mr. EVANS. I would be glad to treat that later.

Now I want to tell you gentlemen why these companies are existing in the way they are. The law of 1887 permitted the promotion of this class of insurance with a paid-up capital of 10 per cent—that is, 10 per cent of its capital should be paid up, the same as the mechanical and other concerns. As a matter of fact it was not understood that any of the capital was to be paid up, and no attempt was made to so construe it until the act of 1902. Then the superintendent of insurance took up that matter and said: "Gentlemen, you must pay up in full your capital stock."

Now, I will mention just at that point, so you can have a clear idea of what the capital stock means, that those companies doing an industrial business among a class of poor laboring people, principally, principally people of whom I dare say there is not one in a thousand that could possibly undertake to conduct a company successfully, because, gentlemen, there never was an institution in the world more difficult to conduct than an industrial life insurance company. It requires more energy, more brains, and more experience of the right kind. The result was that they began business with a small capital stock for the purpose of preventing, when the business had grown to successful proportions, the control of the company getting into the hands of persons absolutely ignorant and incapable of managing it. Therefore the only requirements were that they should furnish capital enough in the beginning to successfully inaugurate and build up the institution until it was self-supporting.

Now, in accordance with the superintendent's suggestions, we paid up the nominal capital stock, which you gentlemen will realize was very important to preserve the equities of the incorporators, and keep them from being destroyed when it reached a successful point. In addition to that we had to furnish necessarily a surplus for working capital. It naturally follows that the three, four, or five thousand dollars, whatever the capital stock might be, could not be utilized, not being elastic, for anything in the purchase business, to pay claims or anything else, unless in case of insolvency, when it would possibly pay something. The result has been, gentlemen, that we have proven conclusively that our business is sound. We have proven conclusively that the plan is based upon a principle, beyond all question, a thoroughly sound principle.

Now we come to you with this statement that we are not here asking for mercy, for we do not feel that we have committed any crime. We do not come here asking for anything, gentlemen, but what is just.

Mr. PARKER. Have you a policy here that shows what the assessments are?

Mr. EVANS. I can tell you, but I have not.

Mr. PARKER. Say on \$100.

Mr. EVANS. I will tell you, Mr. Chairman, if you were under 40, and you wanted a policy giving you \$10 a week for say ten weeks in a year, and a hundred dollars at death, you would pay 40 cents a week, a weekly premium of that amount. The rate, if compared to the old-line rate, would be a peculiar comparison. If you compare it with what is known as the old-line industrial rate, it would still be wrong, because, as I said awhile ago, out of every

dollar we disburse, from eighty to ninety cents is paid in accident benefits; therefore it follows that not more than ten or fifteen or twenty per cent is ever paid for death benefits. Now the only possible reason that could exist ordinarily would be putting up of a reserve fund of any kind, assuming that my statement is correct—and certainly, gentlemen, I can prove beyond controversy, if the opportunity was given, that every word is correct—that our rates are not sufficiently adequate to continue to keep us in that state of prosperity which would enable us by the common sense rules that govern good business, to accumulate as we go along a surplus or guaranty fund that will in itself be sufficient to meet every exigency that might arise.

I could state the personal working of each individual company, and show you even from the reports that I have that they have always with commendable business sagacity done that thing; that as their liabilities have gone up they have increased because they had the means to do so; not that they had to do it from methods of necessity—in fact, if we keep on hand a surplus for immediate use sufficient to equal, or to meet, the assessments, the premium receipts, for two weeks, we would have enough to meet any ordinary situation that might prevail. Nevertheless we find a peculiar situation brewing. Now I will call attention to this. Here is a copy of a bill, an act, that in 1904 was approved by the insurance companies of the District, was approved by the department of insurance, the Commissioners of the District, and by your honorable body in the House. It was held up by Dr. Gallinger in the Senate because it contained no exemption clause for paternal insurance. Now, that bill simply provided that no new assessment life companies should be inaugurated in the District without keeping a paid-up capital of \$10,000; and the companies then existing under a prior act of Congress, giving them, of course, certain inalienable rights which could not be ignored or taken away, should pay up \$1,000 per annum in real estate or other securities to a trust fund to be controlled by the trustees. This we approved, not that we felt that it was necessary, but to cater to the desires of the department. The bill speaks for itself.

Now, when the morbid sentiment created by disclosures spread abroad it naturally struck Washington with, at the same time, an unfortunate conflict of opinion; and the issues involved between the department and the companies on the question of taxation seemed to accentuate the feeling, and the department began to insist that we would have to have a more drastic measure. Now, here is one thing that I want to call your particular attention to, and it has considerable bearing on this case, and that is that almost without exception there has been no demand, and I say it advisedly, from the public—that is to say, from the members of these companies—there has been absolutely not one failure of any concern since the department of insurance came into existence, nor for many years prior to that, unless it was a little wild-cat concern that was not worth mentioning.

Now, where does this clamor come from? The superintendent of insurance, gentlemen, would not stand here and tell you that there was a single one of these companies insolvent. He does not dare to tell you that they would fail to meet their obligations that would

come against them, that they have not been amply provided with funds to meet every single obligation that they have had to meet. Not for a moment will any man dare to controvert that, unless he wishes to convict himself of falsehood, because it is not so. As a matter of fact, you gentlemen can hardly conceive of the difficulty of conducting a sick benefit insurance company, because death is one thing and life is another.

Mr. TIRRELL. Have you not been advised to raise your assessment rates from time to time?

Mr. EVANS. No, sir; we never dreamed of it.

Mr. TIRRELL. What is the name of your company?

Mr. EVANS. I would hardly like to mention. I am representing some seven. I am president of the Washington Industrial Underwriters' Association and a medical director of my company. I would hardly like to mention.

Mr. TIRRELL. You understand the system that was in operation with the Royal Arcanum, a company in which I paid assessments myself. You know their system. It was considered the best.

Mr. EVANS. That was a paternal, based upon present death rates.

Mr. TIRRELL. Your remarks were not applicable to that?

Mr. EVANS. No; not at all.

Now, gentlemen, if we come to you with a full exposé of our business, not trying to cloud the issues, not trying to throw dust in your eyes, and could at once show you the actual workings of our business, you would say, "You are on a sound basis."

Mr. AMES. What makes the operation of your company possible with such low premiums?

Mr. EVANS. I did not say that the premiums are so low. I say that the premiums are thoroughly adequate, sufficiently so; but I will tell you one factor, and it is one that you gentlemen could not possibly arrive at unless I told you. The causes are manifold, between the shifting elements of our population—that may be one thing that causes the heavy lapses in our business and the changing. But I think it is primarily due to the fact that insurance is something that people are being educated up to. For instance, industrial insurance, such as existed many years ago, has become indispensable to the masses of the people that are too poor to obtain insurance in any other class. It is rather an unfortunate condition, because we have a sufficient premium to maintain, I believe, every member through the ordinary expectations of life safely.

Mr. PARKER. I have here an advertisement that has been handed me of the Provident Relief Association. Is this one of your companies?

Mr. EVANS. No, sir; that is represented by Henry E. Davis.

Mr. PARKER. Are the rates about the same in all companies?

Mr. EVANS. Practically.

Mr. PARKER. I would like to read the rates: Ten cents a week between the ages of 15 and 40, giving a sick benefit, I suppose for ten weeks, of \$2.50, or a death benefit of \$25. The same sum between the ages of 40 and 50 gives a sick benefit of \$2 per week and a death benefit of \$60. The same sum between the ages of 51 and 60 gives a sick benefit of \$1.50 and \$15 at death. That seems to be the rate through the larger payments, which run up to 30 cents a week. Can you tell me how much of these collections go out in commission or to agents?

Mr. EVANS. There is no way, Mr. Chairman, so far as we have been able to determine without more expense perhaps than a small company could afford, to get that, because we can not afford to employ expert mathematicians and actuaries in determining just what percentage it costs us to get the business.

Mr. PARKER. What commission do you give on collections?

Mr. EVANS. From 15 to 20 per cent of the collections are allowed as commission, providing the collector is not paid a salary. Of course, that does not apply to the purchase of new business.

Mr. PARKER. What do you mean by the purchase of new business?

Mr. EVANS. Because, you see, we naturally not only have to make good the lapses of old business, but we have to purchase more than that to make the increase.

Mr. PARKER. What commissions do you allow?

Mr. EVANS. They vary very much.

Mr. PARKER. Well, about?

Mr. EVANS. I will give you a practical idea. If you were working for the Metropolitan Company, they would pay you seven times the amount of the small premium that you have obtained.

Mr. PARKER. That is not one of your companies?

Mr. EVANS. No; but I would like to give you an illustration.

Mr. PARKER. But as to your companies?

Mr. EVANS. We pay, if we are paying in advance in cash, about seven times the amount of the weekly premium.

Mr. AMES. You speak about the lapses being a source of income. What proportion are lapses?

Mr. EVANS. I did not say, Mr. Ames, that lapses were a source of income. On the contrary, they are a source of great loss. That is something that is generally misunderstood. The lapses would be a source of income if the lapses represented policies that had extended over a period of years—

Mr. AMES. I asked you so as to ascertain how it was possible for you to conduct your business with such low premiums, and I thought you gave as an answer and one of the reasons the large lapses.

Mr. EVANS. I should have added to that that the result of the heavy lapses rate is that we never carry the percentage of old people that the old line companies got in the course of time by the process of evolution. Now, of course we will reach that point; in other words, if you write an increase in a year of 1,000 members, and in the course of another year you lose 800 of them, you naturally have only 200 remaining, and if in the course of another year you lose another hundred you only have 100 remaining. That is about the practical experience.

Mr. PARKER. What becomes of the profits of these companies?

Mr. EVANS. The question is a broad one. I will say this to you, that if there are profits earned by any individual companies that those profits are subject to disposition of stockholders to be paid as dividends and to be utilized as surplus funds. And, of course, to be utilized also in payment of salaries for the trustees and directors. I am sorry to say that the majority of them have very little for that purpose, some practically nothing at all; they do not have it.

There is one point more that I want to make at this time. You have heard me say that the capital stock of these concerns will run from

\$1,000 up. That does not, gentlemen, mean that there is not any more money put in that business—not at all. On the contrary, that is tied up; that can not be used for anything; but the working surplus must be put up in addition to that. In the case of the company that I am directly connected with, I might say that I think about \$15,000 additional has been paid in to the trustees besides the entire income, netting many thousands more, in our efforts to build up a worthy and successful institution. But of course therein lies a very important point that you might lose sight of, that while it seems small, it seems in fact too small, yet it does not represent anything but mere nominal control that must be represented in cash. If we had a capital stock, and that was paid up, we could not use the capital paid in; it would be tied up. Therefore we keep that as low as possible and apply our surplus fund to the handling of a successful institution.

Now, I will get down to details. This matter came before the subcommittee of the House, of which Mr. Smith is chairman. It is referred back to us with the request that a uniform policy should be adopted, and the bill brought back. In line with that request the companies of the city generally met, and, after considerable work, adopted what we believed to be one of the best policies now in operation. It is not the policy that we have used here for many years, but it is the policy used in the neighboring States of Maryland and Pennsylvania, and has been found successful and satisfactory both to the insurer and the insured. We concluded that that form of policy would be, as a definite thing, better than the policy that we had heretofore been carrying, and we took the policy and endeavored to liberalize it. We figured very carefully whether we could not, instead of giving \$5 a week and \$50 at death for a premium of 20 cents, give \$100; and it was decided that if we could get that form of policy, and legislation did not injure us, that we could do that. In other words, we are striving and have been for years, to liberalize our policy in every way. The main factor, I might say, has been competition. The older companies were forced to a great extent to increase their liberality, because newer companies were coming in and forcing them to do that, and I think that a very strong argument in favor of fair and reasonable competition. However, when one of the committee preparing the bill took the policy to the insurance department it was left there by request. We presumed, as a matter of courtesy, that it would be returned to us to determine what was fair. Instead of that we have been presented a substitute of Mr. Smith's original bill—we have here (H. R. 18894) as a substitute for the original bill.

Mr. PARKER. It is 19154. The newest one does not give any form.

Mr. EVANS. Pardon me, but this one that I refer to is 18894, introduced by Mr. Smith on May 2.

Mr. PARKER. But there has been a substitute to that introduced.

Mr. EVANS. I have not seen or heard of that.

Mr. STERLING. Mr. Smith introduced the substitute himself.

Mr. EVANS. Then am I to understand that it is understood that this being assessment insurance, and the policy industrial, that we are not to have the uniform policy?

Mr. PARKER. There is no proposition to give a uniform policy on this industrial policy.

Mr. EVANS. Of course, this was in view of the request of the company—

Mr. PARKER. I don't know what we are going to do, but I say that is the proposition. Mr. Smith introduced a new bill containing no form.

Mr. EVANS. I am sorry that I have not been able to learn of this before. Therefore, its provisions are not exactly clear to me; in fact, not at all. Might I inquire what the requirements are?

Mr. PARKER. Giving full authority to our commissioner of insurance—practically the same thing, with the \$10,000 deposit guaranty.

Mr. EVANS. Then I will say, gentlemen, that prior to the introduction of this bill on May 2, introducing what purports to be a policy approved by the department, I would not hesitate to agree to the commissioner of insurance joining with us on what would be a uniform policy. I am frank to say that, unless his mind undergoes a great modification, there would be nothing but ruin staring the companies in the face in trying to introduce a form of policy similar to the one introduced on May 2. As a matter of fact, sick-benefit insurance intensifies a hundred fold the difficulties of handling insurance.

Mr. STERLING. The analytical examinations?

Mr. EVANS. It is not that. It is the fact that a person seldom dies willingly; and when he is dead, there is but one factor, and that is, Is he in good standing? But for the persons desiring sick benefits there is always a factor of graft. Now, we know that many people are honest—the majority are fortunately honest—but, unfortunately, many of them are grafters.

Mr. STERLING. That is, they play sick?

Mr. EVANS. They do, sir. For instance, I will give you a practical illustration of how one person can graft upon a paternal sick-benefit company. A gentleman walked into our office on one occasion and asked for the largest combination policy that we would issue on his wife. He gave his card as a manufacturing chemist in another city. He said that his wife was a peculiar person, did not like insurance, but that he was very fond of it, thought it was an elegant thing, and that she was in a certain company in another State, and he gave us a check for the premium. But it looked suspicious, and when he found that I was the medical examiner for the company, he requested me personally to go and call upon his wife as in the position of somebody seeking some other line of business. That in itself was suspicious. Now, I wrote to the other company immediately, and I will give you the result of that. [Reads:]

Replying to your inquiry, we have to say that her record with us would not justify us in recommending her to you. She became a member of this society in December, 1891, and has drawn the full limit of sick benefits allowed by the society. The following is a copy of her record: Two weeks, 1894, dysentery and grippe. One week, 1895, nervous exhaustion. Eight weeks, 1896, grippe and inflammation of the bowels. Four weeks, 1897, grippe. Five weeks, 1899, muscular rheumatism and grippe. One week, 1899, gastritis. One week, 1900, gastritis. One week, 1900, fainting attacks, palpitation, and weak heart. One week, 1900, cold and general debility. One week in 1902, influenza. Fourteen weeks, 1903, neurasthenia, nervous prostration, hysteria, epilepsy, and gastritis.

Now, gentlemen, that is only a sample, and it is to show you the necessity for a limitation being placed in the policy, not to protect us against honest people, but to protect us against grafters. It works

out in a practical way very nice so far as honest people are concerned, but certainly we must have protection or we would be ruined.

Now, having eliminated then the factor of policy form, I will say that I have no doubt we can work out a happy solution of that with the superintendent of insurance.

Now, the next point is as to the provision that \$10,000 shall be placed before the 31st of December next by the existing companies with the register of the supreme court of the District of Columbia. I will say that in the bill introduced by Mr. McGuire that we have all features, practically all, of the other bill. Leaving out the policy question which is in here—but we have those others also—and we have this one proviso. Now remember, gentlemen, that you are not injuring anything which is not yet born. Remember that a company that is not in existence can not very well be injured. Therefore we care not if you place \$1,000,000 as a minimum for a company that is not in existence.

Mr. STERLING. Would you rather prefer that that be done?

Mr. EVANS. You know we are all naturally selfish, but I am not so selfish as to stand here and favor a bill that, so far as my individual company is concerned, would not affect us, but will create serious injury to the youngest institutions. I have been approached, gentlemen, by the representatives of at least one company with virtually this remark: "Let us pass a bill that will shut out these little concerns, and we will have the field to ourselves to do business. We don't care anything about the young concerns. We want to catch them. We want insurance, whether legal or not, whether confiscatory in its character, whether it is a denial of their constitutional rights, or embodies the equities and principles of justice. But we will wipe them off the slate, because we want the field to ourselves." Now, I don't think you disagree with me when I say that that is not the correct public policy.

Mr. STERLING. Then it assails the principle upon which your insurance is based?

Mr. EVANS. Yes.

Mr. AMES. I want to ask you a question. How many weeks' premiums did you say it was necessary for you to pay for securing new business?

Mr. EVANS. I should say from three-quarters of a year up to a year's premiums. It is hard to estimate. But that does not represent the full cost seven or eight times. We may pay a man a salary, and it may represent \$25 or \$30.

Now, to get back to my point. You must remember, gentlemen, that a child on the start, be it ever so small, is just as much entitled to consideration, if not more so, than a full-grown individual, because the child is less able to protect itself against assault. Now, here is the situation: These companies are installed, they are doing an honest business, they have put up their capital for that purpose, and, while perhaps the amounts do not compare with the large sums of money handled by other companies, let me call your attention to the fact that they have a very small field in which to operate.

What are you legislating for, gentlemen? Simply for these unborn companies, and branches of other companies doing business here with their headquarters elsewhere? Now, we are the only people who have our money in the business. We have spent years of time, earnest

effort; we have done everything we could do to bring this business to the higher plane, and certainly we have done good along those lines. Some years back the secretary of the Associated Charities said to me: "I am satisfied that but for the assistance of your class of life insurance going to the poor people of this city our demands would be very much greater than they are."

Mr. TIRRELL. How many companies did you say there were?

Mr. EVANS. Fourteen.

Mr. TIRRELL. How many people are insured—the number?

Mr. EVANS. Approximately, I should say—well, perhaps 40,000.

Mr. PARKER. Can you tell as to any of these companies—take the group of them or any single one—and tell the whole amount of premiums received through the year, and total amount paid out for sick benefits and for death? What proportion?

Mr. EVANS. I would hardly like to mention names.

Mr. PARKER. I don't care for names. What proportion?

Mr. EVANS. The average is about 25 per cent.

Mr. PARKER. What do you mean by that?

Mr. EVANS. That is taking it all as a whole.

Mr. PARKER. You mean that if you take in \$100 you pay out \$25?

Mr. EVANS. That is about the average for the fair insurance companies here, and also about the average of the old line industrial companies. That is a very pertinent question and needs this explanation—that it does not follow that that 75 per cent represents the salary or the grafting, but it represents this fact, that the business is exceedingly expensive to procure and hold, and therefore is beyond our control to hold to that extent.

Mr. STERLING. Do you have an age limit?

Mr. EVANS. Yes, sir. It runs from 50 to 60 years in the various companies; some 50, some 55, and I think some 60.

Mr. STERLING. What is the minimum age?

Mr. EVANS. The minimum age is supposed to be about 1-year old children.

I want to earnestly ask you to consider this subject. In deference to the sentiment that seemed to prevail, not in our membership, but to the department, and perhaps through the spirit at large, we proposed this amendment, that the existing companies, those already incorporated, would sacrifice out of their earnings their surplus which they need really to conduct their business, the sum of 10 per cent of their gross premium receipts, each and every year, until the full sum of \$10,000 was deposited as a guarantee fund. I think you will recognize the equity of that proposition. If we set an arbitrary sum, say \$2,000 a year, the very young companies would certainly be burdened grievously. By paying this 10 per cent, if you gentlemen feel that you must have that, we feel that we can pull through successfully and satisfy that spirit which seems to be abroad.

In connection with this matter I want to call your attention to the fact that for some twenty-five years the State of Maryland has grasped this problem quite successfully. The law under the State of Maryland provides:

That weekly or monthly collection or industrial benefit societies of the State incorporated before the 1st of January, 1898, and which made a report to said insurance commissioner for the year 1897, may be only required to deposit with the insurance commissioner upon the terms above in this section mentioned, the

sum of \$500 before the 1st of January, 1893, and to deposit as aforesaid an additional sum of \$500 before the 1st day of January in every year thereafter, until they shall have each deposited, as aforesaid, the full sum of \$10,000.

I will say that the State of Pennsylvania, with millions of inhabitants and a vast domain there to do business in, only requires \$25,000 for new companies and the law was not retroactive.

Mr. BROSNAN. Did not the State of Maryland require those companies to go back ten years?

Mr. EVANS. No, sir; I think not.

Mr. BROSNAN. When was that law enacted?

Mr. EVANS. The law was finally enacted in 1904, as it now stands, but in the one originally enacted there was a typographical error in the construction which was subsequently rectified, and the companies were required to only pay up \$500 per annum under the construction of the typographical error.

Now the question resolves itself into this: First, do we observe a prescribed form; are we sound and solvent; have we done business honestly, and can we continue to do it honestly and live and meet every obligation, and prosper with proper regard for every safety that should be thrown around a policy holder. Can we do that without putting up a sum of money here which can not be touched? Under the rule we could not pay a death claim with it, absolutely nothing unless we have reached that final stage where we can not pay our claims, where judgments exist, and are taken out by process of law. We ask for that modification. We are willing to put up four times as much, if necessary. A company that is taking in a thousand dollars a month would have more than a year to deposit. A company having \$50,000 a year would pay \$5,000.

Mr. PARKER. Is there any company that takes in \$50,000 a year?

Mr. EVANS. Yes, sir; there is one that I think takes in more. Those companies have the advantage of age, and they have accumulated in the usual progress of business enough funds to do this, to comply with this \$10,000 provision without any trouble; and the result is that they came here through their attorney, Mr. Davis, and advocated the passage of this law, which they know full well would be injurious to the younger institutions and play into their hands, forcing the people to lose their present insurance. Gentlemen, it is needless for me to say that that would not be justice nor equity.

ADDITIONAL STATEMENT OF MR. JOSEPH ASHBROOK, MANAGER OF INSURANCE DEPARTMENT OF THE PROVIDENT LIFE AND TRUST COMPANY, OF PHILADELPHIA, PA.

Mr. ASHBROOK. Mr. Chairman and gentlemen, I learned that it would be agreeable to the committee that Mr. O'Brien and I should pass in review the arguments that have occupied your attention for the last few days. I expect to speak very briefly touching one or two points.

By the way of introduction I want to call your attention to the fact that up to the passage of what is known as the Armstrong bill in New York, it had been a cardinal principle all over the United States that a State should legislate only with reference to companies of its own creation, except that it should make such regulations respecting other State companies as would furnish evidence of the

entire soundness of such companies. As to any details of management, nonforfeiture, dividend, and everything of that sort, the other companies were left to be regulated by the States which created them.

A very notable illustration of that is found in the case of the State of Massachusetts. Probably there is no other State in the Union in which so much attention has been given to the general subject of insurance as Massachusetts, and at every session of the legislature of Massachusetts bills are brought before the legislature for consideration. Very early in the history of life insurance, under the inspiration of Elizur Wright, one of the great leaders of this business, the so-called nonforfeiture law was enacted, the first in the country, and Mr. Wright was very warm in the advocacy of it. It was claimed to be very important, and yet down to this time that law affects only the companies of that State. Notwithstanding that a large amount of business is written in Massachusetts by companies of other States, the law respecting nonforfeiture has never been made applicable to them. This was in recognition of the principle of interstate comity, which should preclude an attempt to manage the details of corporations of other States.

The Armstrong committee inaugurated a departure. In the first report they proposed to regulate the companies of other States almost to the same extent as New York companies. The regulations that they proposed were of the severest character. There had been, in their judgment, great mismanagement of the New York institutions, and it was thought those faults could not be regulated except, if I may use a word not in an offensive sense, by legislation of a decidedly paternal character. But after listening to arguments, those bills were amended and do not now apply to companies of other States excepting in certain particulars.

I want to speak particularly on two subjects, and briefly. Those subjects have been discussed, and I do not propose to go into them exhaustively; indeed, my object in discussing them at all is to give you gentlemen an opportunity of asking me questions if the subjects are not entirely understood. I think it very important that they should be thoroughly understood as a preparation for the consideration of this bill which is before you.

The first is the question of the select and ultimate method. Now, that has two applications: First, the application to companies which are just forming. That was very ably and fully discussed to-day and part of yesterday, so I do not propose to enter upon that discussion. It has, however, another application, and that is in determining the amount of expense that shall be paid by the companies for new business. Without intending any discourtesy to anybody, I want to say that the select and ultimate method is an experiment and has not been accepted by most actuaries. As a standard for measuring the value of new business to a company, it is not conclusive. If the Armstrong committee had contented itself with requiring that the companies should furnish to the insurance department each year the information called for by this method the information would have been of interest. Mr. Ames and the gentlemen who have this bill in charge have seen fit to eliminate that altogether, I think. I don't think it even remains as affecting the companies of the District of Columbia.

I said here the other day, and I simply refer to it briefly by way of refreshing your minds, that the opportunities for mismanagement of life insurance companies during the last twenty-five years have resulted almost exclusively from the system of deferred dividends. It left in the hands of the companies an immense amount of money for which they were not held to account. They could spend any amount of money they desired and nobody could question their acts, and the result was a lavish, wanton, and unnecessary extravagance in the management of the business. With the suppression by law of the deferred-dividend system, and with the necessity of these companies every year declaring a dividend, and giving the policy holders an opportunity to know how successfully and economically the companies had been managed, great good will result. There is no necessity for legislation on that subject. I point to the experience of companies that have been managed on the annual-dividend plan in confirmation of what I say. You will find those companies conducting their business in an economical manner. Without mentioning the companies by name, I will say that there are companies that stand prominently before the public to-day as successful companies, whose average rate of expense for the last ten or fifteen years has perhaps been not more than one-half of that of the companies under investigation.

Mr. STERLING. May I ask you a question, one which I think I asked of a gentleman the other day and it was not answered, or at least if it was I did not understand the answer. How at the end of the year does an insurance company estimate or figure the expense so as to determine how much of this dividend that comes from the loading of the policy shall be distributed back to the policy holders?

Mr. ASHBROOK. The premium, for purpose of illustration, may be divided into three parts—the cost of carrying the risk for that year, the amount of money that is to be set aside for the reserve, and the expenses of conducting the business. At the end of the year, if it is found that that part of the premium which provided for the mortuary expense of that year was too high, the surplus is set aside. The money that had constituted the reserve of the company had been supposed to only earn $3\frac{1}{2}$ per cent interest. If it was found that it had earned 4 per cent, or under exceptional circumstances $4\frac{1}{2}$ per cent, the interest over $3\frac{1}{2}$ per cent was surplus. If it was found that the amount for expenses had not all been spent, the amount unexpended was surplus. That is the way of determining the surplus. I am giving you this now not as an actuary gives it, but in a familiar way. The premium, as I explained the other day, is the estimated cost of the insurance. The actual cost at the end of the year is determined in the way that I have roughly explained. The difference between the two is the surplus.

Mr. STERLING. How do you prorate it among the different policy holders—by a certain per cent on the amount of the premium?

Mr. ASHBROOK. You were not present this morning when I answered the question on that subject. Forty years ago, when this surplus was ascertained, it was prorated according to the annual premium on the policies of the company. That was a very crude and improper way of doing it. That was followed by the present system, which is known as the contribution system.

Mr. AMES. That is what you have just described?

Mr. ASHBROOK. That is what I have partly described. If you had a policy, your share of the mortality gain would depend upon your age, the length of time the policy had been in force, and the kind of insurance. If we had \$500 of your money in the hands of the company as a reserve and we had earned 1 per cent more than we had expected, you would be entitled to 1 per cent on that \$500. You would also be entitled to a share in the saving in expense of management in proportion to the loading for expenses upon your annual premium. In justice to myself I should say that I am giving a familiar explanation, and it is not as exact as if I were making it under different circumstances.

Now, to take up the subject of contingent reserve. The Armstrong bill provides that each New York company shall at the end of each year charge itself with its reserve and other definite liabilities, and then pay in dividends the difference between this amount and the amount of its assets, except that it may retain in addition to its ascertained liabilities an amount for contingencies, which amount is to be known as contingent reserve. The possibility of such contingencies arising is acknowledged by this provision of the New York law. The question arises as to the propriety of the limitation as to the amount of the contingent reserve. No limitation is necessary, unless it should be a requirement that the company must maintain at least a certain amount. A company paying annual dividends, if it erred at all, would be more likely to err in the direction of maintaining too small an amount rather than too large an amount. If it retained too much, it would diminish its annual dividends. As its popularity would depend mainly on the size of its dividends, it would be more likely to encroach upon its contingent reserve than to needlessly increase it.

The Armstrong committee not only erred in fixing the limit of the contingent reserve, but committed the serious mistake of making the percentage diminish with the size of the company, in the face of the fact that in all companies which have passed beyond the initial stage the contingencies to which they are exposed are relatively equal.

Mr. STERLING. Do I understand you to say that the New York law fixed the contingent reserve that you are speaking of now?

Mr. ASHBROOK. The New York law requires at the end of the year that the surplus shall be ascertained. Without going into details I will say that it requires that all the apparent gains shall be divided, excepting a certain amount of contingent reserve which they are allowed; but the amount of that contingent reserve is determined by a table that is altogether artificial and arbitrary. If a company has two or three hundred millions of dollars of money in reserve, the amount of contingent reserve might not exceed 5 per cent, an amount altogether insufficient.

Now, just one word in conclusion. Your patience has been exhausted on this technical matter which probably can have no particular interest to you, and I do not propose to tax your good nature by going further, excepting to make this remark: All the companies in the country—all the larger companies, all the companies outside of the companies that are just coming into existence—are doing business in New York State, and are under operation of the law of that State

respecting expenses. There is no need that you should legislate upon that subject at all. But I think Mr. Ames has done very wisely indeed in excluding from the bill a provision regulating the expense. I wish I had had the opportunity of making a suggestion to him before I arrived in Washington. I would have urged seriously upon him that he should have gone further and omitted the provision respecting the contingent reserve—that is, that it should not be included, although it was made applicable to local companies only.

Mr. BIRDSALL. What is your opinion as to whether there should be a report upon the expenses by the company? Even if there is no restriction upon the first year's expense, what is your opinion as to whether you would require the report by the company.

Mr. ASHBROOK. There is a very elaborate report now made respecting the expenses of the company. We are required to say how much in dollars we pay for new business, how much for renewing business, how much for this thing and that thing, and the reports made to-day are extremely elaborate. Then there is what is called the "gain and loss exhibit," in which we are required to show our actual gain in mortality, our actual gain in interest, and the actual gain in loading. I don't think any company would object to this call for information. Of course some reference must be had as to the practicability and expenses of furnishing that information, but we have nothing to conceal.

Mr. BIRDSALL. With a reasonable limit of expense there should be no objection to any report that might be required.

Mr. ASHBROOK. Do you mean as showing what our expense would be in reference to the select and ultimate?

Mr. BIRDSALL. I mean in a general way—any report which would expose the condition of their business.

Mr. ASHBROOK. I think that the most inquisitorial demand, if I may use that word, made upon us for information would not be resented.

Mr. STERLING. Would that apply to the list of policy holders too, so far as your views go?

Mr. ASHBROOK. I have such warm regard for my friend, Mr. O'Brien, and I am in such hearty accord with him on so many subjects, that I hesitate to appear to differ with him on any subject at all, but I do not agree with him thoroughly in regard to that; and I want to call the committee's attention to a fact which I mentioned to him the other evening. Possibly, thirty years ago, the Mutual Life of New York decided upon the extraordinary measure of throwing off 30 per cent of its life premium to any insurer. If a man took out a policy on which the table premium was \$100, he had need to pay only 70 per cent of that premium. There was no discrimination; everybody received it. It met with such disfavor that within perhaps thirty or sixty days there was such an uprising throughout the United States produced against it that the company receded from its position; it was compelled to. There was a meeting in New York presided over by Cyrus W. Field, a meeting in another part of the country presided over by ex-Secretary Bristow, and the opinions of attorneys-general in many States were invoked on the subject, and it was finally decided to be improper in every way.

Mr. STERLING. Did the opposition come from the policy holders?

Mr. ASHBROOK. It came from the policy holders entirely. All that is necessary in a great crisis of that kind is for some leader, some one man, to give one blast from his bugle horn, and there will be such an uprising as would check any company. My own idea is if you are going to inaugurate what is provided for in this bill you will make the management of the company unstable; you will give opportunity to jealous, envious, conspiring people to unsettle the management. The Pennsylvania Railroad elections are conducted in what way? The members all have the privilege of going there and voting at an election, but it is physically impossible for the greater number of them to go. What do they do? They do what you and I consider wise. They send their proxies to Mr. Cassatt, and unless there should happen something to utterly shake their confidence, that is the wisest thing to do. If he is not competent to be trusted with their proxies, they had better resort to some extraordinary means to bring about a change.

This curious condition which exists in regard to life insurance is not confined to life insurance, but it extends to all forms of organization. The course of events in the last few years has produced great concentration of business. Companies are formed and are expanded and expended until they reach dimensions almost beyond comprehension. The man who is interested in one of those institutions to the extent of a large part of his fortune, the man who gives the most minute and rigorous attention to private affairs, does nothing at all.

The question presented is one of grave importance and relates to all corporations. He would be a very wise man who could instantly bring about an adjustment, which it may take years to accomplish. The deferred-dividend system afforded the opportunity for the mismanagement that has occurred in certain companies, and along with that was the curious apathy and blind confidence of the public. This credulity is well illustrated by the remark made by thousands of intelligent persons, that "all companies are equally good." Such an absence of intelligent attention and discrimination was extraordinary. If I do not offend you by a homely illustration, suppose a hundred men should start out to buy houses for themselves, and not one of them an architect or real estate dealer or with any particular knowledge or training that would qualify him to use good judgment in buying a house, what percentage of the hundred would make a serious mistake in doing it? They would realize the responsibility, and in some homely way they would arrive at a safe conclusion. It is not immodest for me to claim to understand the subject I am discussing to-day. I have given many years of my life to it, but I do not hesitate to say that the average man is just as competent as I to make intelligent selection of a company if he goes about it in the right way.

What we want is public sentiment, and we have no public sentiment at all. I fear that this recent surprisingly hysterical exhibition on the part of the public with respect to life insurance will disappear, and the old apathy follow. What we want is intelligent public sentiment. Let me appeal to you gentlemen on a subject which you know more about than I do. What compels that extraordinary, that exceptional fidelity which characterizes the execution of private trusts all over the country, a fidelity scarcely equalled—for example, the

management of the estate of a deceased friend, to hold until the youngest child has reached majority? Is it the law? A man would dare to do almost anything else in the world before being false to that trust, and why? Because he would have committed the unpardonable sin. Other derelictions might be condoned, but the man who is false to a trust has an indelible stigma put upon him; and thank God that is the sentiment the country over, and it gives us infinitely more security than any legal enactment on the subject. It is healthy public sentiment. The best and surest safeguard for life insurance would be an intelligent public sentiment throughout the United States. If there had existed such a sentiment, the grave abuses disclosed by recent investigation would not have occurred. And, gentlemen, just in proportion as you go in the direction of paternalism, of saying to the citizen "You are incompetent to manage this thing; we will take it out of your hands," just in proportion to that will be the failure to create public sentiment.

I am opposed practically to all legislation on the subject of life insurance excepting that which requires us to give you the fullest information upon everything that we do. Nothing should be withheld, and it should be placarded so that everybody should see it. I said here the other day that our reports disclosed every dollar of our securities, the price paid for them, the market prices, the par value of the securities, every dollar of security that is held as collateral, and the amount of money. And one of these recent bills goes so far as to say that we shall furnish for publication the name of every borrower; and respecting our mortgage investments, you could go to an insurance department and get very minute description of fifteen, eighteen, or twenty million dollars worth of mortgages scattered all over the United States.

THE COMMITTEE ON THE JUDICIARY,
Saturday, May 19, 1906.

The committee this day met, Hon. J. A. Sterling in the chair.

The ACTING CHAIRMAN (MR. STERLING). Mr. Cohen, you may now proceed.

**STATEMENT OF MR. MAX COHEN, EDITOR OF VIEWS,
WASHINGTON, D. C.**

MR. COHEN. Mr. Chairman and gentlemen of the committee, at the very beginning of my brief remarks I desire to express, for fear that I may be misunderstood, my hearty approval of the main features of the Ames bill. I realize, firstly, that the present District insurance code is very incomplete; in fact, it has been a wonder to me that the chief of this department, the present incumbent, has been able to so efficiently discharge the duties of his office under it.

If I correctly interpret the main and most essential provisions of the Ames bill, namely, its features for full publicity and in setting the commendable example of striving for the maximum of protection and the minimum of taxation, I confidently believe, and I speak as a student of insurance—for it is my business to be at least some-

what familiar with its various phases and problems—that it offers the most practical remedy for all the shortcomings revealed by the Armstrong investigating committee. In my opinion it will certainly exercise a more healthful influence for the promotion of the public welfare and in the interest of the great business of insurance than the harsh remedial legislation enacted by the New York legislature.

From the stress I lay upon the principle of the “maximum of protection and the minimum of taxation” I do not want you to infer that I would exempt any insurance corporation or association from legitimate taxation, sufficient at least to support a well equipped and efficient insurance department for this District, or for any State or Territory in the United States.

The ACTING CHAIRMAN (Mr. STERLING). May I ask what you mean by the maximum of protection and the minimum of taxation—the cost or expense of insurance?

Mr. COHEN. I am coming right now to that subject, because that is one thing that the public has never understood—that whatever burdensome imposition is imposed upon the insurance corporation finally falls upon the policy holder. Now, upon this very subject, I emphatically declare that the tremendous taxation and the burdensome exactions which many of the States legally impose upon insurance corporations were largely responsible for the criticisms of the vast sums of money expended by those institutions to defeat unnecessary exactions and the many strike bills always on tap in various legislatures.

Now, let us investigate the subject of taxation. Think of it, gentlemen, and I quote a little from authority. In 1904, 32 life insurance companies alone paid nearly \$10,000,000 to the States in taxation. In 1903 they paid nearly \$9,000,000. If I may I will refer to the total. The Insurance Age, of New York, in its issue of last November, conclusively proved that American life insurance companies have paid nearly \$93,000,000 in taxes during the past twenty-five years. In other words, the States have ruthlessly inflicted this heavy burden upon the policy holders and thus imposed the greatest tax upon their thrift.

Mr. DE ARMOND. Do you happen to have the figures paid for salaries during the same time?

Mr. COHEN. I can furnish them to you if necessary. You will find that criticised expenditures sink into insignificance alongside of the taxes.

Mr. DE ARMOND. Have you the figures showing how much money they took in during the same years?

Mr. COHEN. No, sir; but I can furnish those figures.

Mr. DE ARMOND. I supposed you would have them, because the question of how much taxes they paid is not so much of importance unless you have the figures as to how much money they took in during the same period.

Mr. COHEN. I only referred to that fact so as to let you know that if you impose harsh and burdensome exactions upon corporations in the States that they do not fall upon the corporations. The officer who gets his salary is not hurt, but the burden falls upon the individual policy holder in that State. It is a tax upon his thrift. He is already assessed for his education and personal property. Now, why should he be assessed upon that which is positively the best trait

of human nature and of humanity—to provide for his dependent ones?

Mr. DE ARMOND. I wish you would furnish figures showing the amount paid for salaries and in commissions and the amount collected during those years.

Mr. COHEN. I shall be pleased to do so. The Spectator, of New York, the Weekly Underwriter, or the Insurance Monitor, of New York, and, I think, even your superintendent, could furnish the figures at any time you desired them.

Now, I saw Mr. Henry C. Lippincott, the agency manager of the Penn Mutual Life Insurance Company, of Philadelphia, here, and I was sorry that he could not remain longer at this meeting so as to also address you. Hence I desire to invite your attention to the repeated efforts of this gentleman to mold public opinion. I refer to a lecture delivered by him in 1899 on "Taxation of Insurance Companies," in which he said:

The legislature which represses life or fire insurance can extenuate its violation of all property only upon the theory that it is ignorant of the effects of its acts. It would be an unjust reflection upon the intelligence of many members of the legislature to say that they do not know who it is that pays all such taxes; and yet inquiry will develop the fact that a considerable percentage of the legislative body has a vague impression that life and fire insurance institutions are distinct entities, wholly apart from the members who compose them. As the business of life insurance is mainly transacted by mutual companies, all taxes are paid by the members of those corporations, and to the extent to which they are paid the cost of insurance is enhanced. Apparently the corporation pays the tax; really it is paid by the members, whose premiums are correspondingly affected. Mutual life insurance, however, is so conducted that this tax is an indirect one in the sense that it is not immediately brought to the attention of each individual. Such companies, in order to be on the safe side, collect more than they need, returning the excess usually every year, or at the end of a series of years. Manifestly this excess is in every case diminished by the amount paid for taxes, which thus plainly come from the pockets of insured members.

Mr. DE ARMOND. Why does not that apply to everything else—farms, manufactures, machinery, and everything else?

Mr. COHEN. I do not agree with you.

Mr. DE ARMOND. Why doesn't it, if it does not?

Mr. COHEN. Why do they make the insurance corporations this target to draw out the money that belongs to the policy holders?

Mr. DE ARMOND. I understand you to make this a special class which has a peculiar hardship?

Mr. COHEN. So it is.

Mr. DE ARMOND. What difference is there in principle from the taxing of a farm; does not the man have to sell his products high enough to pay his taxes?

Mr. COHEN. One mode of taxation is fair and the other mode is excessive and unjust.

Mr. DE ARMOND. Why?

Mr. COHEN. Because there is too much, more than is necessary, more than should be exacted, two-thirds more than should be exacted.

Mr. DE ARMOND. That is another question. I understood you to refer to the taxation of insurance companies in general?

Mr. COHEN. No, sir. Even in my preface I said that I was in favor of equitable and just taxation which is necessary to carry out—

Mr. DE ARMOND. What rate are you in favor of?

Mr. COHEN. I think about one-half of the taxes would be a fair *pro rata*.

Mr. DE ARMOND. About what rate would that be?

Mr. COHEN. I would not want to go on record as suggesting a mode for general adaptation, because while one State might require a large amount another State would require a smaller amount.

As early as 1866 the highly respected Mr. C. C. Hine, the late editor of the Insurance Monitor, of New York, prepared and distributed all over the country circular letters for the purpose of molding public opinion in opposition to this unjust mode of taxation. But as all subsequent efforts, they also were fruitless. The language of one of these circulars from which I quote applies in part to the present-day conditions as truthfully as to those of forty years ago. Here is a quotation from one that was written over forty years ago to create public sentiment:

Legislation in the several States toward the insurance companies of sister States has proceeded in a spirit of persistent and injurious hostility, until it has created an almost prohibitory burden of taxes, forced loans, deposits, licenses, subsidies, compulsory advertising fees, etc., State, county, and municipal, that would surpass the belief of one not familiar therewith. Generally these laws do not look to the real security of the policy holder or the strength of the companies, but are apparently conceived in a temper of extortion and unfriendliness to enterprises that are the handmaids of commerce and the guardians of all our destructible values.

Mr. DE ARMOND. The writer was either wrong forty years ago or things have changed for the better in the forty years?

Mr. COHEN. Changed somewhat for the better, but I am only speaking now of this principle which makes the thrifty man pay a penalty upon his thrift.

Mr. DE ARMOND. But that man forty years ago was finding the same fault with the conditions then?

Mr. COHEN. He commendably attempted to mold public opinion and to interest the public in the regulation or in the administration of insurance. But it has been impossible to mold a public sentiment on conditions positively hostile to their interests, and for that reason I quoted this language.

Mr. DE ARMOND. As I understand it, the writer from whom you quote made the claim that conditions with reference to taxation were so hard then that they were almost prohibitory, so far as crossing a State line was concerned. It has been demonstrated either that he was entirely wrong or that those conditions have greatly changed and improved because the companies have crossed State lines?

Mr. COHEN. I agree with you as to somewhat changed conditions. But in the first place, I am referring to the fact that it is an unjust and unnecessary tax, and, secondly, that we enjoyed such prosperous years that the average investor in a life policy would never investigate the subject of how he contributes unnecessarily in the matter of taxes; and I think it is a wrong upon him, and I think it ought to be remedied; and when I say "remedied" I mean to say that a State might exact even a little more than sufficient to pay the running expenses of a well-equipped and efficient department to protect the policy holders.

Mr. DE ARMOND. Your idea really is that the insurance companies ought to pay only what would amount to a nominal tax?

Mr. COHEN. Not exactly nominal. I say a "sufficient" tax to answer all the purposes, and even, if necessary, to help occasionally the State treasury.

Mr. DE ARMOND. How much do you think that tax should be?

Mr. COHEN. As I told you, I think if they cut the tax in two it would be more than ample.

Mr. DE ARMOND. You think they are paying double taxes then?

Mr. COHEN. I do, positively.

The reason I lay so much stress on this subject is because the recent insurance investigation proved that the largest sums of money expended, for which the companies have been criticized, were to defeat undue taxation, hostile legislation, and the strike bills on tap in the various legislatures, and I venture to say, gentlemen, that although these officers have been criticized for their method of fighting this hostile legislation and the sums of money expended in doing so, they were actuated by good sound business principles, and because they realized the useless endeavor of molding public opinion sufficiently to go into the legislatures and stop them. And I therefore endorse every word uttered by Mr. McIntosh, the counsel of the New York Life, who addressed you a few days ago in vindication of one of the greatest personalities in the business of life insurance. I also add my humble tribute to the memory of the late John A. McCall; to his fine quality of heart and mind, and to his stupendous ability. That such a man, so adequately equipped for usefulness, and because he so manfully shouldered responsibilities, should have been so unjustly assailed by the yellow press, and, while so critically ill and gasping for breath, so mortally stabbed by false friends in his own official household is positively the irony of fate.

Mr. DE ARMOND. Going back to the paying of large sums of money to influence legislation, do I understand you to justify that on the ground that taxes are too high?

Mr. COHEN. They are too high, but I want to say that it was not to influence just legislation, but to defeat hostile and unjust legislation, and if you would ever examine or inquire into the many strike bills that are introduced in the various legislatures, that are a menace not to the corporations, but a menace and punishment to the policy holders in the corporations—

Mr. DE ARMOND (interrupting). What do you mean by "strike bills?" I wish you would explain that term.

Mr. COHEN. Strike bills that introduce whereases and resolutions that impose additional exactions on a company—taxation and burdensome and unfair methods of requirements which must eventually always be borne by the policy holder. That is what I want to impress upon you.

Mr. DE ARMOND. The legislatures in general are supposed to be made up of the representatives of the people elected by the people?

Mr. COHEN. Yes, sir; but I want to say here that there is a difference and that there are exceptions. It is my pleasure to say it, and I want to compliment this committee for the patience exhibited by it in listening to the various representations that have been made on the part of these gentlemen representing different interests during these hearings, and I want to call your attention to the fact that it is mighty fortunate for this nation that we have a United States

Congress. As a student of insurance and as a student of the general situation, I can truthfully say that you can not point to one act of legislation by Congress, notwithstanding all the charges that have been made of it playing at party politics and the charges of jingoism, that has ever interfered or injured one commercial, financial, or industrial interest.

Therefore I am all the more glad that this body is now considering this subject. But if you would examine and inquire into the methods of some of our State legislatures I think you would not have a high opinion of some of the gentlemen connected with them in their various endeavors to secure what they term "consideration." When I say that I do not imply this to be in general; I only want to refer to the fact which can be made apparent to any gentleman who investigates the subject, that there has been a great deal too much of attempted injurious legislation.

Mr. BIRDSALL. I assume that, excepting that class of legislation which has been instituted in the interest of one class of insurance as against another class of insurance by these companies themselves, that all these efforts have been efforts in the interest of the policy holders?

Mr. COHEN. I fully agree with you. It is one of the misfortunes of human nature that one gentleman who represents one system thinks his system is better than another system, and there is not among human nature that broadness that, perhaps, should prevail. It is for that very reason and because so many misstatements have appeared in the daily press of the remarks made at these hearings, that I have voluntarily come here to present my few remarks on this subject. It is positively awful the way some things are misrepresented; one system ridiculed by one and the other system ridiculed by another, when I think you can agree upon it that all the legitimate institutions can work in harmony for the benefit of all the public.

Mr. DE ARMOND. I would like to ask you whether you approve of the use of the money of insurance companies—any companies—to defeat legislation regarded as unjust or hostile with reference to taxation?

Mr. COHEN. I think that if I were the executive officer of a company and I saw a bill introduced in a legislature which threatened to injure my policy holders, I would use every possible effort to defeat it. I would think it my duty.

Mr. DE ARMOND. And you would use the money of the company?

Mr. COHEN. Certainly, if necessary; because the loss by the enactment of unjust legislation would be twenty times greater.

Mr. DE ARMOND. Then you think it is a part of the duty of insurance officers, I mean officers of insurance companies, to use the money of corporations with reference to legislation?

Mr. COHEN. Oh, no. I would say that when obnoxious legislation, burdensome legislation, is proposed which endangers the interests of the policy holder, then it is the duty of the executive officer to use his best efforts to defeat it.

Mr. DE ARMOND. Who is to determine whether or not the funds of the company should be used in such a way?

Mr. COHEN. The officials.

Mr. DE ARMOND. The management of the company?

Mr. COHEN. The officers in charge, the executive officers in charge of these institutions, and their directors, their boards of directors. .

Mr. DE ARMOND. You think that whenever those in charge of the management of an insurance company think that in the interest of the company the money of the company ought to be used to defeat pending legislation, that money may be properly used by them for that purpose?

Mr. COHEN. I want to say right now that all the alleged graft, shortcomings, and extravagant expenditures which have been developed by the recent investigations are but a minnow to the whale when compared with the exactions which the States have legally imposed upon the policy holder. I will take the sum total of all and every item charged in this recent investigation, and I will show you that individually it amounts to probably from 25 cents to 40 cents to the policy holder, where the exactions the States have imposed upon him costs from \$5 to \$20.

Mr. DE ARMOND. Have you the figures so that you can show them side by side?

Mr. COHEN. I can furnish the figures at any time.

Mr. DE ARMOND. Now, let us get the relation of 25 cents to \$5. That is about 1 to 20, and the relation of 20 cents to \$10 is about 1 to 40.

Mr. COHEN. That is right.

Mr. DE ARMOND. You think that for every dollar that has been spent in all these various ways which some people call corruption—

Mr. COHEN (interrupting). I do not call it corruption.

Mr. DE ARMOND. Some people call it corruption.

Mr. COHEN. Because they do not understand it.

Mr. DE ARMOND. You think that for every dollar expended in all these various ways, the aggregate of the sums used to affect legislation and in different other ways, as disclosed by the Armstrong committee, from \$20 to \$40 have been taken from the policy holders by unjust and excessive taxation?

Mr. COHEN. Positively. I want to call your attention to the fact that in one State at one time they exacted a tax of 10 per cent on the premiums. In other words, a man who paid \$200 premium on a policy, say of \$5,000, had to pay the State \$20. That is a good illustration. Of course that act was immediately repealed.

Mr. DE ARMOND. What State was that?

Mr. COHEN. It only shows the hardship of some legislation.

Mr. DE ARMOND. What State was that?

Mr. COHEN. That was one time in Pennsylvania. In Ohio to-day there is a tax of 3 per cent on premium receipts. Why should a man who pays \$200 on a policy of \$5,000 be compelled to pay to the State \$6 on that policy, not counting the amount he pays for other requirements, license fees, and numerous other little things? Why should he be compelled to pay that \$6? That is, if he paid \$3, it would be more than a sufficient sum for all purposes. I only go into these matters in order to demonstrate the necessity of molding public opinion upon this question, to let the people know that, whatever burdensome exactions in the method of taxation are imposed upon institutions, it is the citizens who are compelled to pay them.

Mr. DE ARMOND. Then, as I understand, you are in favor of the molding of public sentiment in the direction of lower taxation, and

at the same time you advocate and justify the expenditure of money to influence legislation?

MR. COHEN. I justify reasonable methods to defeat unreasonable taxation, which any business man or any head of our industrial or financial institutions would consider perfectly legitimate.

MR. DE ARMOND. Then I understand that you justify this expenditure of money?

MR. COHEN. I am perfectly willing to go on record that even the \$1,000,000 which was spent by President McCall, under the auspices of Andy Hamilton, was justifiable; and I further state that it not only has saved millions of dollars for his company and his policy holders, but has saved millions of dollars for the policy holders of other companies, and upon that basis, as far as my information goes, I justify it.

MR. DE ARMOND. The question I want to ask you is whether justifying that expenditure of \$1,000,000 or more—starting out with that justification—whether your appeal to the average legislator for lower taxes is proper?

MR. COHEN. I think the very fact that this bill has been considered by this august committee and looked upon as a Federal measure, and as far as the hearings of this committee have gone, and of its general appearance, it will have a decided healthful, vigorous, and beneficial influence. And I want to call your attention to another fact: That questionable conditions which have existed will never again exist in the future; that the splendid investigation of the Armstrong committee has brought about a notable reform which positively insures that in the future no unnecessary expenditures will be made, but insurance companies and all corporations must spend money for purposes that are perfectly legitimate. They must necessarily pay the expenses of gentlemen, for instance, whom they send to your hearings. All will favor that conservatism be adopted; but when I say "conservatism" I do not mean the prohibitive, restrictive, remedial legislation enacted by the New York legislature. In my opinion, instead of benefiting it is driving these giant companies into a method of centralization, which I do not approve of, and neither do you.

MR. DE ARMOND. You speak of a reform having taken place which would prevent the occurrence of such a condition of things again. Is that reform in the insurance companies?

MR. COHEN. Decidedly; but I want also to say to you that the great preponderance of our American life, fire, and accident insurance institutions have been and are now conducted as honestly and as conservatively as any other business interests in the United States. I was proud to see that you got just a little semblance of the type of men who control the destinies of insurance, such men as, for instance, my friend, Major Ashbrook, of the Provident Life. I assure you that such, as well as thousands of other men (and you have a representative right here of the Penn Mutual Life—Mr. Goulden, a Member of Congress), men who would sacrifice their lives to see to it that every interest of the policy holder is honestly administered—that his rights are fully protected.

Gentlemen, while I do not condone any shortcomings revealed by the investigations, I do maintain that the situation does not warrant prohibitive and restrictive legislation; that the preponderance of

our American insurance institutions, whether life, fire, accident, etc., are honestly, conservatively, and efficiently administered, and that the policy-holders' interests are most carefully guarded and protected. In exemplification thereof, I will further state that the very absence of representatives of the fire insurance companies at these hearings is chiefly due to the fact that every one of them is now most busily engaged in facilitating the process of settling for the tremendous losses incurred through the awful San Francisco calamity, and in making all possible personal sacrifices to make good every dollar of indemnity provided for in the policy contracts issued by them. And because some newspaper reports, originating from the expressions of an eminent actuary at this hearing, of a gentleman who honestly believes, and perhaps also so unconsciously makes other people believe, that he is endowed with "the wisdom of centuries," has led to some misapprehension in the public mind, it now affords me all the more pleasure to state that even the few fire insurance companies who have been compelled to retire, have so reinsured their business that every cent of their losses will also be paid in full.

I think it is wrong to pass any legislation upon the assumption that men are dishonest. I think it is an outrage upon American citizenship and upon American industries, and it has gone on until now the people over in the foreign countries think that all the honesty and all the integrity is centered outside of this country.

I want to call the attention of this committee to one fact, that this very remedial legislation of a prohibitive nature strikes a vital blow at the creative genius, upon the man who plans and invents, the man who designs the forms of policies most acceptable to the public, the splendid personality of the hustling agent who has to labor for months and months to stimulate the magnificent and beneficent work of insurance. Why, gentlemen, but for his labors—and nothing has been said here about the bone and sinew of these institutions, the agency forces, the men who build them up—but for them, two-thirds of the insurance would never have been written. Why, they are entitled to every cent of commission they make.

Mr. BIRDSALL. The object of all supervision by the States is the protection of the policy holders?

Mr. COHEN. Yes, sir.

Mr. BIRDSALL. The State is necessarily confined to business done within its limits?

Mr. COHEN. Yes, sir.

Mr. BIRDSALL. And whether the tax is upon the premium or otherwise, it is necessarily confined to the business of that State?

Mr. COHEN. Yes, sir.

Mr. BIRDSALL. Upon what theory could any tax be justified beyond the limit of the reasonable cost of the maintenance of the bureau of supervision?

Mr. COHEN. I do not justify it.

Mr. BIRDSALL. You say that you might go beyond that; upon what theory would you go beyond that?

Mr. COHEN. Only that in estimating they might make a mistake and add a few thousand dollars.

Mr. BIRDSALL. But your idea is that it should not exceed that limit?

Mr. COHEN. Decidedly. Remember one thing, gentlemen, the

harsh, unjust legislation in the State. Take the position of the company. It has interstate branches throughout the country. It has gone to large expense in establishing agencies. It has made contracts with its brainy workers to work the business of life insurance in its behalf. All at once here comes legislation and the administration of some autocratic insurance commissioner, and when I say "autocratic insurance commissioner" I want to say that the personnel of the insurance commissioners has greatly improved in the last years. But I remember the time when some of them would go on junketing expeditions and take trips to Hartford and New York, particularly in the summer time, and they would go into the office and say, "I have come here to examine you."

The foreign companies caught it the worst, because they were not in a position to put up a stiff fight. Some companies would not submit, but the diplomatic gentlemen of some companies would also say: "Meet us at Delmonico's," and "How much is your bill?" Those days have existed. I want to say that my impression of the insurance commissioners has broadened very materially, and that the leading members at these insurance commissioners' conventions have zealously endeavored to remedy this evil. They are the very men that have made any of their associates who resorted to such practices feel that they were pretty small fry.

MR. BIRDSALL. Coming down to brass tacks, how does this bill affect taxation?

MR. COHEN. I want to compliment my young friend, Mr. Ames, because he has struck the keynote in his bill—in the minimum of taxation and full publicity, which is of greater benefit to the public than all other requirements. I say to you now, if I had my way, or if I could impress Mr. Ames and this body, that I would eliminate all possible restrictive and prohibitory provisions from the bill. I would so modify it that it would be an incentive for all insurance corporations to come in under this measure, so that when such institution or corporation had received a clean bill of health from such a department, when it had received the indorsement of its head, that that would be the best guide to the public at large that it was entitled to public confidence and entitled to their patronage. But also remember that you gentlemen of Congress must also make up your minds to sufficiently equip such a department with the necessary means to enable it to secure ample clerical help, and you must also give ample authority to the chief of the department to faithfully and impartially discharge the duties of his office.

I only want to refer in conclusion to a few of the misstatements of the hearings which have been made in the newspapers. I find, for instance, Senator Bulkeley heralded as representing the *Ætna* Fire Insurance Company, when he is the president of the *Ætna* Life Insurance Company. Statements also appeared as to an attack upon industrial insurance which would be unjustifiable, but which I am sure I never heard at these hearings, and I have been a very patient listener.

I also caution you not to lay too much stress upon theories. Now, I have a very high regard, for instance, for the actuaries of the companies; but, gentlemen, I do not think they are endowed with all the creative genius. I do not think I would want some of these technical men to run the companies. These do not give the impulse and the

motive power to the success of an institution. And in that very connection I want to refer to this great and eminent actuary, Mr. Dawson, who addressed you here, and of his perhaps unconscious influence in helping to enact a system of legislation so destructive of the Anglo-Saxon spirit of energetic effort and progressiveness; legislation so suspicious of man's integrity and so harmful of the creative and inventive genius which has so expanded this business of American insurance, and so injurious to the agency force and the thousands of men who have built up these large institutions—

Mr. DE ARMOND. What particular feature of the bill do you refer to?

Mr. COHEN. Firstly, the limitation on the ratio of business. You must remember, gentlemen, that here are institutions that have made contracts with their agents to write business. They have agencies throughout every hamlet in the United States. Now, gentlemen, they must now necessarily be compelled to violate some of their contracts. To therefore throw them into a morass of unproductiveness is not, in my opinion, wise and judicial legislation.

Mr. BIRDSALL. You limit it to the amount of business?

Mr. COHEN. On the amount of business; I refer to restrictions. I contend that the company as well as the agent, the insurance worker, the toiler, is entitled to apply its utmost endeavor.

Mr. DE ARMOND. The object of this legislation is to give a better opportunity to comparatively small companies and new companies in getting business?

Mr. COHEN. I fear not. I fear that the effect of the legislation will be to centralize those large institutions and to accomplish the very purpose which I believe you would most object to.

Mr. DE ARMOND. That may not be under the limitations that now apply to all?

Mr. COHEN. I refer especially to encouraging a spirit of inertness, to a dull, melancholy system of conducting the business of an institution which has been equipped to write a large volume of business.

Mr. DE ARMOND. That makes an opening for the others, the smaller ones and the new ones?

Mr. COHEN. I do not think it does for that very reason. I think the business is yet in such a primitive state as to invite ample competition. I think you can not apply the word "trust" to any insurance institutions, because the competition is always very keen, as has been proven by the recent investigation. But I further contend that the method of remedial legislation of New York, especially in compelling a company to publish a list of its policy holders, has been just directly in restraint of trade.

Mr. DE ARMOND. The large companies?

Mr. COHEN. Yes, sir; the principle is there.

STATEMENT OF HON. JOSEPH A. GOULDEN, REPRESENTING THE EIGHTEENTH NEW YORK DISTRICT, AND GENERAL AGENT OF THE PENN MUTUAL LIFE INSURANCE COMPANY OF PHILADELPHIA.

Mr. GOULDEN. Mr. Chairman and gentlemen of the committee, I appear before you, not as a Member of Congress, but as an insurance man, having been engaged in that business since 1868. I alone am responsible for what may be said, as I do not represent my company in any capacity here to-day.

I have been very much interested in this bill as well as in the investigation in my own city by the Armstrong committee. I congratulate this committee upon their patience and fairness in these hearings. I can realize fully the tax it is on your time.

The bill introduced by my friend from Massachusetts, Mr. Ames, is in the main an excellent one. I have some criticisms, however, to make on it, but fortunately or otherwise there has been so many amendments proposed and accepted by him that I am at sea to know just what there is to criticize.

First, permit me to make some general comment upon the bill, particularly the clause that relates to discriminations; in other words, rebates. There has been a great deal said about this matter. I have been a sufferer with the rest of the managers, because I have maintained a general agency for many years.

My agents had to live, and if they did not earn it out of their commissions I suffered financially. However, the benefits from rebates went to the people who took insurance, hence can not be credited to profits of the agent. May I say that in New York, and other States as well, many men, prospective insurers, demanded rebate. I think there is a clause in the bill of Mr. Ames that prohibits, as far as can be done, discriminations, which merits your approval. This can not be made too drastic.

The provision providing for the payment of good salaries to the bureau officials I heartily indorse, because experience teaches that cheap men are dear at any price. I would rather pay a man two or three hundred dollars a month than to employ one who thought that he could earn only \$50 a month. I should be the winner on the high-priced man. The gentleman from Massachusetts, in his bill now before you, has provided for sufficient salaries to secure the best men for the management of the proposed improved department which you expect to give to the country. It seems to me that should this committee in their wisdom report a bill that would prove a model bill, it might be accepted by many of the State departments of insurance, and in that way save a great deal of annoyance and expense to the insurance companies as well as to the States.

I took occasion the other day to indorse what the gentleman from Connecticut, the president of the *Ætna Life Insurance Company*, had to say in reference to two items, viz, commendation of the insurance commissioners of the different States as well as the honesty of management of the great majority of our American companies. However, I want to go on record as not approving—and I do not say this as a partisan—what was said by the same party with regard to contributions to campaign funds. Emphatically, as a policy holder, I object to it, and I would not care a fig what party might be benefited. The principle is wrong and should be stopped.

Mr. BIRDSALL. Did your company at any time contribute to a political campaign?

Mr. GOULDEN. In answer to Judge Birdsall of the committee, I would say that in compliance with a demand made in 1896 our board of directors voted \$10,000 to a certain national campaign committee. Let me say here that some one representing such a committee made a request for funds, and we in common with many other Philadelphia institutions complied. To my mind it was a hold up. Again in 1900, and I believe in 1904, it was tried, but failed owing

to the opposition of certain trustees, particularly one from Massachusetts, a strong partisan, from which came the demand for campaign funds. The gentleman from Massachusetts is well known throughout the insurance world.

Mr. TIRRELL. You mean Mr. Plympton?

Mr. GOULDEN. Yes, that is correct; I alluded to him.

The New England Mutual Life Insurance Company, of Boston, before complying with the demand of 1896, consulted its counsel, Mr. Stephen J. Foster, one of the leading attorneys of the State of Massachusetts. His opinion was that the directors would be individually liable for any contribution of this character. It is unnecessary to say that the company did not comply with the request.

Mr. BIRDSALL. You referred to it as a "hold up." What do you mean by that—that there was a threat?

Mr. GOULDEN. The demand was, as I understood it, rather persistent, and perhaps insistent.

Mr. BIRDSALL. Were they threatened with inimical legislation?

Mr. GOULDEN. No; I think not. There was, however, a strong demand, and corporations, as a rule, felt that it was easier to comply with it than to refuse, and likely looked on it as a duty under the circumstances. The wish, I imagine, was father to the thought and the feeling generally in all financial institutions at the time, that they were justified in the matter.

Another subject alluded to this morning by the gentleman from Washington, the editor of Views, in regard to legislative expenses, I am sorry I do not seem to agree with him. I should not be in favor of one dollar being contributed from the funds of any insurance company to influence legislation. I should consider it as bad, or worse than the campaign contribution. That has been the trouble at many of our State capitals. It was current rumor that to be a senator at Albany in the past was equal to a gold mine, worth as much as \$50,000 or more to the right man. The "house of mirth"—Judge Hamilton, Andy Field, and others were not figments of the imagination at Albany. Much of the vast sums supposed to have been handled by these and other statesmen came from the insurance companies. This is no secret. Every New Yorker knew of these rumors. That money was freely spent in Albany, and perhaps in other State capitals, is well known.

Mr. BIRDSALL. I know that you do not want to do the previous gentleman an injustice?

Mr. GOULDEN. No; for Mr. Cohen is a gentleman of ability and character, and whose friendship I esteem and value highly.

Mr. BIRDSALL. I gathered from his remarks he confined them to legitimate expenses, such as the expenses of the gentlemen coming before this committee.

Mr. GOULDEN. I may say that I do not regard anything in the direction of unduly influencing legislation as legitimate.

Mr. COHEN. If you will allow me, I not only referred to the New York legislature, but the various legislatures.

Mr. GOULDEN. It has been, I think, just as bad in Pennsylvania, Illinois, and elsewhere, I am sorry to say.

The ACTING CHAIRMAN [Mr. STERLING]. Suppose an insurance company or any other enterprise should learn that a bill that they considered hostile to their business interests had been introduced in

a legislature, and that company would send what they call a legislative agent to present the matter to the committee to whom the bill had been referred. That would necessarily incur some expense. Would you think that would be a legitimate or an illegitimate expense?

Mr. GOULDEN. I think it would be legitimate to pay his expenses while there, but not to allow the legislative agent to use money for the purpose of influencing legislation.

Now, a word or two about the Armstrong bill. In the main, it is to be commended and I indorse what was so ably said by the president of the Life Underwriters' Association, Mr. Scovel, the other day before this committee. I disagree with him, however, on the matter of section 96, limiting the companies in new business. I do not imagine that he took into consideration the language of the Armstrong bill on this proposition. The committee and the legislature of New York have gone beyond their legitimate sphere of duty, in my judgment, in undertaking to limit the amount of new business to be done by a life insurance company. I should be willing to do the same thing, however, in a different way, by limiting the expenses. You will find on page 51 of the Armstrong bill a limitation of expenses:

SEC. 97. *Limitation of expenses.*—No domestic life insurance corporation shall in any calendar year after the year nineteen hundred and six expend or become liable for or permit any person, firm, or corporation to expend on its behalf or under any agreement with it (1) for commissions on first year's premiums; (2) for compensation not paid by commission, for services in obtaining new insurance exclusive of salaries paid in good faith for agency supervision either at the home office or at branch offices; (3) for medical examinations and inspections of proposed risks; and (4) for advances to agents, an amount exceeding in the aggregate the total loadings upon the premiums for the first year of insurance received in said calendar year.

The suggestion that was made to the Armstrong committee, and one that I should recommend, would be to omit the third item, "medical examinations and inspections of risks." I think that can be properly chargeable to general expenses. Then in addition to that I should add the saving which results from the fines on cash surrenders. To illustrate, I have a policy in the Penn Mutual Life Insurance Company for \$10,000. Its cash value to-day is say 90 per cent of its reserve value. If I determine to give it up, very properly I should forfeit that 10 per cent. Now, it seems that the forfeiture which goes back into the general funds, and a good sound risk goes out of the company, that this gain could justly be used to secure a new member. As a rule that has become impaired keeps up the insurance. Beyond these two suggestions, and the limitation of renewals to nine years, to which I am opposed, I heartily indorse the Armstrong committee's provision for limiting expenses. With this limitation it will be impossible to do the great business that has been done in the past; and, may I say, it was largely due to the rivalry for volume of new business—the desire to be first in the ranks of the insurance companies of the world—that led to all this extravagance and the abuses that naturally followed. There were three companies—I shall not mention names—who, in their rivalry for business, each trying to outdo the other in new business, in assets, and in everything that counted in life insurance, went ahead and did business regardless of cost.

I remember well when the revenue stamps were attached to policies during the Spanish-American war that men in the city of New York gave a certain company's policies away as chromos. The company did not only pay 100 per cent for the first year, but in addition paid for the revenue stamps to get business. Had they been limited in their expenses, as proposed, this could not have happened. It would have been impossible under the amendment suggested for companies to pay more than 50 or 60 per cent the first year for new business. My contract is 30, 35, and 40 per cent for new business on different forms of policies, and whatever I pay over and above that I must do it personally. I have had to pay more than that to get business. My agency writes in the neighborhood of \$2,000,000 yearly new business, and at the end of the year if we simply had the year's business we would be much poorer. We are paying for the new business not because we want to pay such high commissions, but because we have been driven to it by unfair competition. I say that, in my judgment, the limitation of expenses will cover the other item which the Armstrong committee has put in as No. 96, which I deem entirely necessary, and uncalled for.

Taking up the bill of Mr. Ames, the first suggestion I find is on page 3, lines 3, 4, 5, and 6. There is objection to that language because it applies to companies of all States. I think it should apply only to companies organized in the District of Columbia.

There is the same fundamental error in the bill which was in the original Armstrong bills, and which under the advice of Mr. Hughes that committee corrected before reporting the amended bills. I refer to the matter of interstate comity, and call your attention to the third, fourth, fifth, and sixth lines on page 3 of the bill, providing that—

All foreign insurance companies, as a condition of transacting any business of insurance within the District of Columbia, shall be subject to the provisions of this act.

They propose that every company which wants to do business in the District must conform its business, not only in the District, but everywhere, to the provisions of the District Code. You can appreciate that companies being chartered by other States and subject to restrictions contained in the laws of their own States, if there was a single conflict between the practice of the home States and the practice of the District it would be impossible for a company to comply with the District law and it could not have the right of doing business there. The proper thing, of course, for the District to do is to establish a code for its own companies. They should not attempt to ask the companies to transact business everywhere in accordance with the District requirements, and to do so will be to lead to much confusion, and destroy the purpose for which the Ames bill has doubtless been framed.

Mr. BIRDSALL. In other words, you think that provision is broad enough to cover everything to be covered by this act?

Mr. GOULDEN. Yes. I think the District of Columbia should attend to its own business and look after its own companies and let other States manage their affairs, because there will be trouble between the States and the District if the bill should be passed in that form.

Mr. AMES. There has been an amendment suggested.

Mr. GOULDEN. I have inserted my views on that matter, but am glad to learn of the amendment.

The next provision is on page 16, with regard to preliminary term. I must say, personally, that I am inclined to be in accord with the bill on that, but realize the fact, Mr. Chairman, if you do not allow the preliminary term no new company can be organized with the hope of success. Most of the young companies now in existence and doing well will have to go out of business, I fear, unless they are allowed to charge that preliminary term which the Massachusetts department prohibits. I may say that, so far as my company is concerned, it does not need this advantage, but I believe it would be wise to engraft it in the bill in order to encourage the formation of good substantial life insurance companies as well as to encourage those now in existence and in their formative period. The first fifteen or twenty years of a life insurance company is necessarily an experimental one. If they succeed and obtain sufficient business on which to prorate expenses and average their losses they will be successful, otherwise go to the wall.

Now as to pages 24 and 25, they have been discussed at some length. I think companies should be allowed to do accident and individual liability combined with life insurance. That is proper, and I do not see any objection to it; but, as I understand, the bill as originally drawn prohibits one company from doing a business with two or more kinds of insurance as above indicated in one policy contract.

Now, in regard to participating and nonparticipating policies, which is found on page 31. I think they should be permitted to do both. My company has never done so. Our counsel has ruled that a mutual company could not do a stock or nonparticipating business under the laws of Pennsylvania. However, I see no real objection to it.

Mr. AMES. Why did your counsel rule that way?

Mr. GOULDEN. For the very reason that in the formation of a company a stock business is intended for the benefit of the stockholders and in a mutual company only for the policy holders.

Mr. AMES. Do you think it would be a good provision?

Mr. GOULDEN. Yes; but I do not like to interfere with people or companies doing both kinds of business.

Mr. AMES. It is one of the provisions of the Armstrong bill?

Mr. GOULDEN. Yes; it has at least that to commend the provision in your bill.

My next suggestion is found on page 36, with regard to the classification of directors. I have something to say upon this matter.

In this connection I refer you to page 36, section 34, where it provides that every mutual life company, organized or authorized to transact business in the District, shall classify its directors in a certain manner. The charters of various companies, and even the laws in some of the States under which some companies are organized, provide for a different classification of trustees. Is the District of Columbia going to demand that all the other States must change their statutes, and all the companies of other States their charter provision concerning elections, before they can be permitted to transact business within the District? This attempt to legislate not only for companies organized in the District, but concerning the details of the conduct and the management of corporations chartered by other

sovereign States and doing business in accordance with their laws, is an invasion of that comity which usually exists between the different jurisdictions which go to make up our Union. It is wrong in principle and will prove in practice most vexatious and impracticable. Let the District of Columbia set up a complete code for its own companies and frame it so sound and proper that its application to the companies of other States will swiftly follow through its adoption by the legislatures of such other States.

I want to add that it might be a serious hardship to the company I represent. We could not, I fear, comply with the law. We are a purely mutual company, recognizing the policy holders as the owners, and no proxy votes for trustees or directors can be cast. Each individual policy holder must cast his own ballot in person and not by proxy. Therefore many of the objections that have been raised that the presidents or others connected with the companies hold and cast the proxy votes does not apply to us.

Mr. AMES. Is not that another way of saying that your policy holders shall not be allowed to vote?

Mr. GOULDEN. Emphatically, no. Each policy holder is entitled to a vote for the first \$1 of premium paid, and another vote for every \$50 additional premium. For example, I pay in premiums to the company \$850 yearly; I am entitled to 17 votes, and I cast them each year for trustees who must be policy holders. In reply to the question of the gentleman from Massachusetts, Mr. Ames, I will say that in the history of the company the policy holders from all over the country at times have cast their ballots personally, electing new trustees different from those on the "regular" ticket. You can not capture or gain control of the company in any one year. There are 27 trustees elected each year for a period of three years. In 1885, when the policy holders voted in large numbers, thus electing an opposition ticket, Colonel Plympton came in as a trustee, Mr. Ames.

Mr. BIRDSALL. The ultimate power of control rests with the policy holders?

Mr. GOULDEN. Yes; absolutely, and can be exercised at any election, thus producing salutary results.

Mr. AMES. These people traveled from all over the country in order to cast their votes?

Mr. GOULDEN. Yes; that is true. Our annual elections are always well attended.

Mr. AMES. Is not that an unnecessary expense?

Mr. GOULDEN. No; not to those paying large premiums, and therefore deeply interested in the company's welfare. Suppose Colonel Plympton came to you as a policy holder, saying, I want you to go to Philadelphia and vote for trustees who will guard your interests, and gave reasons for this action. I think you would go. Its growth has been steady and along conservative lines, with a splendid record in management.

Mr. AMES. One of the provisions in the Armstrong bill——

Mr. GOULDEN. The Armstrong bill does not make the same provision.

Mr. AMES. No; but it provides for voting by proxies.

Mr. GOULDEN. Yes; it does not forbid the voting by policy holders, as your bill seems to do, so that your bill should be amended in this particular.

Mr. AMES. There are four ways of voting in this bill—by proxy, in person, by representative, and by mail.

Mr. GOULDEN. I think you should strike out the "by mail." I know how easy it is to gather up proxies from the policy holders.

Mr. AMES. That limits the proxies. One person could vote only 20 proxies?

Mr. GOULDEN. You can easily settle that by an amendment.

On page 42, the annual distribution of dividends, I have something to say on that matter.

Mr. AMES. We have amended that section.

Mr. GOULDEN. It dictates just exactly how the companies of Massachusetts, Connecticut, and Pennsylvania shall distribute their dividends, not only on the policies issued in the District of Columbia, but on "every policy issued on or after the 1st day of January." The law should require, if they so desire, an annual accounting, or even an annual distribution, but should leave the details of the methods to be settled by the companies. The law is not only vicious on the ground of interstate comity before referred to, but is wrong in dictating the methods in which dividends may be applied, when with annual declarations or apportionments detailed methods should be left to become a matter of contract between the company and the policy holders. It is significant that the Armstrong committee abandoned, as ill advised, provisions which are now contained in section 47 of the Ames bill.

I have only a word to say in closing. This committee has an important duty to perform; in fact, it is too important in my judgment for you to undertake to do it and report at this session of Congress. If I were on the committee I should say frankly that it ought to wait until the next session of Congress to submit a model bill. In the meantime go over the matter thoroughly and prepare a good, satisfactory code. Either do that or else simply enact a law for the benefit of the District of Columbia without any idea of influencing or benefiting the States. But I take it that the gentleman from Massachusetts was right in introducing a bill that was intended as a model for all the States. There is no question but that many of them would be glad to accept the examination and certificate of the District of Columbia if a good code was adopted and properly administered. I have implicit confidence in the ability and patriotism of the members of the Judiciary Committee to formulate such a bill.

Mr. AMES. Do you believe in the publication of the list of policy holders of a company?

Mr. GOULDEN. No.

Mr. AMES. That is one of the provisions of the Armstrong bill?

Mr. GOULDEN. I do not believe it would be necessary nor judicious.

Mr. AMES. Agreeing with your proposition was the reason that this bill provides for the opportunity of voting in four ways—in person, by proxy, by representative, and by mail—but it does not provide that there shall be a list published of the policy holders.

Mr. GOULDEN. I think you were right in omitting that. In the first place, it would be expensive, and I do not see what good it would accomplish.

Mr. AMES. Can you see how it would be harmful to the company?

Mr. GOULDEN. Yes. Because these lists would be open to the public generally, and if a policy holder received the documents and

trashy matters, with the annoyance of numerous visits of all sorts of canvassers that come to Members of Congress and others on account of their names being published, it would be a nuisance.

Mr. STERLING. It would not be any expense to the company if the list of policy holders was open to inspection, so that any policy holder could go to the office of the company and see it.

Mr. GOULDEN. I do not see any objection to that.

While the Armstrong committee has doubtless done good, it has gone too far in some things, and harm will result, in my opinion.

May I say that while we condemn all that is bad in life insurance, the good far outweighs all this. Yes, there was much to criticise, yet as insurance men we are justly proud of our American insurance companies. The people need have no fear on the score of solvency, of ability to pay every claim, and in the future, as in the past, they may have full and implicit confidence in this matter.

I thank you, gentlemen, for your kindness to me this morning.

STATEMENT OF MR. DOUGLAS H. ROSE, ACTUARY, MARYLAND LIFE INSURANCE, BALTIMORE, MD.

Mr. ROSE. So much emphasis has been laid upon the idea that this bill is intended to be a model insurance law that all of its provisions and requirements become of importance whether applying by the provisions of the bill exclusively to local companies or not. If the bill is to be model one, the hope is that it will be copied by the legislatures of the various States, and the local provisions will then apply to the companies formed in those States and be binding upon them. In this view of the matter attention may be called briefly to the limitations upon the investments of insurance companies as defined in section 26 on page 31. Assuming that the proposed amendments submitted by Mr. Ames will be adopted, and so far as I have had the opportunity of examining them they seem on the whole to be distinct improvements, section 26 applies to the investment of the assets not merely the capital of domestic companies. Within the limits of safety insurance companies need as wide a field for investments as can well be granted, otherwise interest is cut down and the final cost of insurance increases to the policy holder. Paragraph 3 permits investments in the bonds or notes of any incorporated county, city, or town of the United States whose net indebtedness at the date of such investments does not exceed 5 per cent of the valuation of its property for the assessment of taxes. This limitation as to the net indebtedness will probably cut out a number of desirable and really safe securities.

Mr. AMES. Do you know what the indebtedness of Baltimore was?

Mr. ROSE. It depends upon how you count it. I think the gross indebtedness is about \$28,000,000. If you simply deduct the sinking fund, it is about \$28,000,000, or somewhere in the neighborhood of 7 per cent.

Mr. AMES. Can it be as much as that?

Mr. ROSE. I think so.

Mr. AMES. I understood it was a little over 2 per cent; but I may have been misinformed.

Mr. ROSE. Well, maybe I am misinformed, but at any rate that is a matter that is very easily verified by looking it up. My impression

was, that the assessed valuation of property in Baltimore City—you know Baltimore is not a rich city for the size of its territory—is only about \$400,000,000, I think.

The fifth paragraph speaks of first-mortgage bonds of any railroad company, etc. First-mortgage bonds of the best railroad companies are exceedingly difficult to obtain at any moderate price, having long since been absorbed and are now held at high figures. Some second-mortgage bonds are undoubtedly good, and it is quite possible that many second-mortgage bonds, even with the limitation as to dividends contained in the fifth paragraph, are better securities than certain first-mortgage bonds. The amendment suggested by Mr. Ames changes the word "capital" in the first sentence of section 26, and also in the first paragraph thereunder, to "assets." A similar change does not seem to have been made in other paragraphs of the section. Probably it is intended to carry the change throughout, and if so a number of other changes to conform therewith will have to be made. Indeed, in a number of particulars, the investment portion of the bill is not satisfactory as pointed out by Senator Bulkeley with regard to the ninth paragraph.

In the sixth paragraph industrial securities are mentioned, and if the investment regulations are to apply to all of the assets no permission has been anywhere given for investment in such securities.

Attention may also be called to the seventh paragraph where collateral loans are mentioned. This is practically prohibitive of such loans. They are frequently a very desirable form of investment for a temporary employment of funds, so that interest may be obtained upon them while awaiting permanent investment.

Mr. TIRRELL. Right there, I notice in section 26, in the first paragraph, it says that loans can be made on real estate, the market value of which must be double, at least, the market value at the date of the investment. How can you determine the market value? Would you put them up at auction to determine the value? How could you make a loan where you are personally responsible to such a calculation as that, where it shall not exceed one-half of the market value? How are you going to get at it?

Mr. ROSE. I do not know about the word "market," the one-half of the "market" value of the property—

Mr. AMES. Would it not be just as hard to give the value as the market value? That is the Massachusetts provision.

Mr. DRAKE. Would not the appraised value be the proper term?

Mr. TIRRELL. A test of the value may be given, but individuals differ as regards the value of property in the market.

Mr. DRAKE. If the words "market value" were replaced by the word "appraisement," that would settle it?

Mr. ROSE. I think the practice of companies is to have their appraisers make a valuation, and loan one-half of their value.

Mr. TIRRELL. It would not be a market value. Now, as to the result of that—I am on the board of investment of one of the large savings banks of Boston, and there it is left entirely optional under the law, and has to be with the board of investment, who, as a rule, are guided, though allowed to some extent otherwise, to go on their own judgment as to the value, and are then authorized under the law to make the loan 6 per cent upon that.

Mr. ROSE. A margin of 25 per cent can not be obtained upon first-class securities unless under most exceptional circumstances. On the best securities the smallest margin is obtainable. If the margin is made too large, as has been said, it will prohibit call loans altogether for prudent managers of life insurance companies, but allow them for those who are willing to take doubtful securities. This, of course, is the reverse of the intention of the law.

Attention may also be called to the fact that there is no permission to invest in the bonds of electric railways. Such securities are quite safe in many cases, and are very widely held.

Mr. AMES. Does the law discriminate in your State between electric railways, or street railways, and railroads?

Mr. ROSE. The laws are different in some respects.

Mr. AMES. Why should you object, then, to this provision?

Mr. ROSE. If it is the intention to include those I think it ought to be made perfectly plain.

This whole section evidently needs considerable revision, and what has been said is not intended to be exhaustive, rather to point out certain things which are obvious on even a casual examination, but which might possibly in some cases be overlooked in recasting it.

As has been said at the beginning, however, the restrictions on investments should be as moderate and limited as possible.

On page 42 is found section 47, relating to the annual distribution of dividends. One of the difficulties with reference to the legislation on this subject is the way in which a provision for strictly annual distribution of each year's profits bears upon small companies. The profits of any life insurance company must necessarily show fluctuations from year to year, but in a small company such fluctuations are often marked from the very necessity of the case. In a small company the general mortality experience spread over a number of years may be quite as favorable as in a large company, but for the very reason that the number of lives is limited the variations in the mortality experience from year to year are considerable. One year may be quite favorable, the next year unfavorable, or vice versa. Fluctuations from year to year are unavoidable. Obviously they can not possibly be controlled. Hence, if a strict distribution is to be made every year according to the profits of that year, the dividends would vary in a manner that would not only not be satisfactory to the policy holder, but would disturb and alarm them, often to the extent of discontinuing their insurance, which would be an injury to them and to the company.

Mr. AMES. An interruption: Would you provide for the contingency reserve, following the New York code terms?

Mr. ROSE. Yes.

Mr. AMES. With the small companies provided in this bill, 20 per cent thereof should be a contingent reserve. Don't you think 20 per centum would cover the fluctuations?

Mr. ROSE. Yes; it would cover the fluctuations, but as a practical matter the agents of other companies get at everything that is unfavorable to a company, and generally they will say about a small company, "It is a pretty good company after all, but it is small, you know;" and they may learn that they had a contingent reserve of so much this year, and last year they had a larger, and they will say, "See how the surplus has gone down."

Mr. AMES. Do you not think the basis of that trouble in New York—this corruption—was the large surplus they had?

Mr. ROSE. I am not speaking of the size of the surplus, but of the variation in the surplus.

Mr. AMES. That, taken in connection with their failure to make an annual distribution of dividends—

Mr. ROSE. I recognize the point of what you say there, but I think in this legislation the intent has been rather to favor the small companies as a matter of public policy—not merely because they are small; and I am merely pointing out what I think should be done, not saying what you should enact, but I am pointing out these suggestions as regards small companies perhaps in a way that you may not have thought of.

One year there might possibly be little or no dividend at all; another year there might be an abnormally large one. As has already been stated by the insurance commissioner of Maryland at the last session of the legislature of that State, a law was adopted forbidding the delaying of distribution of surplus under any policy longer than five years. This period, which has been the English one, gives an opportunity to secure something like an average result so far as mortality is concerned.

That law was introduced by a member of the legislature who said that beyond everything else he wanted to get at the deferred distribution business. But we have simply restricted it to no longer a period than five years.

Again, it is a question, to be considered at least, whether the result of making annual distribution of surplus mandatory might not have other unfavorable effects, especially upon new companies. It has been practically impossible for new companies really to earn much, if any, surplus for distribution to policy holders in the first few years of their existence. Now, if they have got to declare dividends annually, and if it is the intention, as seems to be the case, to force a comparison of dividends granted by the different companies, these small and new concerns will, necessarily at first, be at a considerable disadvantage in the comparison, and there may be the temptation under the circumstances by an inflation of values or some other questionable practice to figure out a surplus which really does not exist and divide it among policy holders for the purpose of making a show of earnings. I think the bearing of a number of restrictions in recent legislation, proposed or enacted, upon the small and new companies needs to be carefully considered. It may be that some of these restrictions not intended primarily for such companies at all will bear most heavily upon them.

Now, as to details, in the same section (47), it is required that any dividends should be applicable at any time to the payment of any premium upon the policy, or to the purchase of a paid-up addition thereto. This has been the practice of a number of companies, but not of all. The company with which I am connected has always allowed the policy holder having an annual distribution policy the privilege of deciding, when the first dividend became applicable, whether dividends should be used in future in part payment of premiums or in the purchase of paid-up additions. If the former course

were selected a change could not be subsequently made to the purchase of additions unless the company was satisfied as to the policy holder's continued good health. Likewise if the custom of taking paid-up additions were entered upon and afterwards departed from, it could not be resumed without satisfactory evidence of continued good health. The idea in this restriction, of course, is plain, that otherwise a policy holder whose health had become impaired and who could not therefore get insurance in the ordinary way would at once begin to use his dividends to buy paid-up additions. There would therefore be a selection against the company, and an unfavorable mortality experience would be had. That this is not merely theoretical may be borne out by the experience of companies which have allowed dividends to be used in the purchase of paid-up additions at any time. A gentleman connected with the actuarial department of one of the largest companies in the country told me that the experience of his company, at any rate, had been that the mortality on dividend additions was heavier than on the regular policies. It is to be remembered in connection with all such matters that in a life insurance company, as nearly all of them are now practically mutual companies, a privilege or benefit granted to one policy holder or class of policy holders has to be paid for by all. If the mortality experience of the company is rendered heavier by granting dividend additions to those who want them in the manner proposed, all the policy holders will have the cost of their insurance increased.

Page 47, section 53, requires that every policy which contains a reference to the application of the insured should have attached thereto a correct copy of the application and examination. The words "other than medical" are inserted in brackets followed by a question mark. It does not seem wise that a copy of the medical examination should accompany the policy. Some things of a confidential nature are often told by the applicant to the examiner, and the former would not himself wish to have such disclosures written down and attached to a policy which might be seen by a number of persons.

Then section 55, prescribing standard policies, is of doubtful wisdom and should, I think, be omitted altogether. If retained at all it would appear that they might be modified to advantage.

Mr. AMES. The amendment proposed takes care of that, does it not?

Mr. ROSE. I do not know that. The section prescribing standard policies is of doubtful wisdom, and I think it should be omitted altogether. If retained at all, it would appear that it might be modified to advantage.

There is a rivalry among reputable companies to make prompt payment of all legitimate death claims. The standard policy, however, promises to pay upon receipt of due proof of death. It would seem that it would be better to use some such words as are now customary, such as "upon receipt and approval by the company of satisfactory proof of the fact and cause of death," or something to that effect.

Mr. STERLING. Are you about through now, Mr. Rose?

Mr. ROSE. I can not say that I am. I have more here than I thought.

Mr. STERLING. If you have a considerable part of your manuscript left, would it suit you just as well to give it to the reporter and let him incorporate it in the hearings?

Mr. ROSE. It might do just as well. I have about 5 pages of manuscript left.

Mr. STERLING. I am perfectly willing that you should continue on the floor.

Mr. BIRDSALL. If he has any matter that he wants to call attention to not included in the manuscript, let him confine himself to that.

Mr. STERLING. Yes; let the manuscript go to the reporter.

Mr. ROSE. The only trouble about that is that I have not exactly followed the manuscript. However, I will present it as it is:

It has been customary with companies of late years to extend the privilege or benefit that has been introduced from competition of a grace of thirty days for payment of premiums. Some companies have even extended this privilege already without requiring any interest if the grace is availed of, but what reasonable claim can there be for grace without interest? It simply means that those who pay promptly are at a disadvantage compared with those who do not. Suppose a certain company has a renewal premium income of \$6,000,000 and suppose that one-half the policy holders took advantage of the thirty days' grace provision. This would mean a loss to the company, compared with prompt payment, of one month's interest each year on \$3,000,000. At $4\frac{1}{2}$ per cent, this would amount to \$11,250. Of course practically without any grace provision many premiums do not ordinarily reach the home office promptly, being in the hands of agents for collection and subject to unavoidable delays, but the point is that all such privileges extended are paid for by those who do not avail themselves of them, as well as those who do, and as every privilege costs something the cost of the insurance by the lowering of the dividend is necessarily increased to all. Each little benefit may make but a small difference, but the sum total must make an appreciable difference.

If it became generally known that policy holders have thirty days' grace for the payment of their premiums without interest, a considerable number of them at least would avail themselves of it. I was recently told by an agent of a company that had such a provision in its policies that several of the policy holders of that company did not discover the fact until after the Baltimore fire, when it was brought to their attention by the agent himself. Of course all the companies were extending for the time being special privileges to policy holders who had suffered by that fire. The agent went on to say that those policy holders who learned of the grace provision in their policies without interest, though abundantly able to pay promptly, had never since failed to take advantage of the thirty-day privilege. As has been shown, if this happened generally in any company there would be an appreciable loss in interest every year, a loss which would be, to a considerable extent, a charge upon those who were prompt for the benefit of those who were not.

The matter of adverse selection from the privilege of applying dividends at any time to the purchase of insurance has already been mentioned.

The provision as to loans in the standard policies as amended allows a margin of 20 per cent of the reserve. As no direct cash values appear to be allowed under the policies, the indirect method of taking a loan would have to be availed of in order to obtain a cash

value. The 20 per cent margin in such a case would represent the surrender charge. Now, it would seem fairer and wiser to make a larger charge for a withdrawal happening in the early years of a policy than for one occurring later, as obviously more detriment is done to the company by the withdrawal of the more recently examined risk, which is usually the younger risk, than by the withdrawal of one who had already been a number of years in the company. Perhaps it may be well here to emphasize the fact that anything given in excess of what is justly due to a withdrawing policy holder must necessarily be taken from those who continue.

There are different opinions about the extended insurance feature. The company with which I am connected has never looked with much favor upon it, believing that unless very carefully guarded it will result in a selection against the company, and consequently increased mortality; that is to say, those policy holders who withdraw, and for any reason feel that death is likely to occur in a few years, would naturally choose the extended insurance privilege rather than paid-up insurance for a smaller amount. We have never incorporated the extended insurance feature in endowment policies. Apart from everything else, such policies are often granted by the company when a term policy would not be granted, because the risk is not thought one that the company would be justified in taking upon a low premium plan like the term plan. It would be possible for an applicant to accept an endowment policy, and then in two or three years withdraw and take the extended insurance feature, thereby securing a term policy. I have been informed that this has actually happened. It is true that at least three years' premiums would have to be paid upon the endowment plan before this could be done if the amended policy form is used, but I do not think that the companies would be willing to grant insurance in many cases on the endowment form if they knew in advance that this option would be exercised at the end of a few years.

We have never believed in dividends on term policies, nor in renewable term insurance, though there is a difference of opinion upon this question. The objection to renewable term insurance is the objection again of liability under such a plan to adverse selection, and consequent increased mortality. It is said to be a matter of actual experience that when such policies have been issued the mortality after renewal has often run much beyond the American Experience Table of Mortality, the table ordinarily used in this country, and recognized in the present bill as the basis for reserve calculations. A number of other details might be mentioned if there were time.

To return briefly to the question of standard policies, it does not seem on general principles that they are needed. Mr. Dawson stated in his address to this committee that he, during the Armstrong investigation, had assembled policies from a number of companies and found them much like. He said nothing about finding anything of importance that was misleading in the language of these policies. I do not believe that such is the case in any essential particular in regard to the policies issued by the regular life insurance companies. Perhaps it has been true of policies issued by some of the assessment companies. If the policies that Mr. Dawson assembled were much alike, and were not misleading, and they could not be much alike if they were not all misleading, there does not seem to be any great

necessity for prescribing a standard form. Occasionally applicants desire some special policy contract. If you prescribe a rigid form such a contract can not be written.

We had an instance in our own experience some time ago. Certain property was to go to a woman provided she survived another woman some 80 years of age. It was desired to obtain a loan upon the security of this property, and to protect the lender we were asked to issue a policy of insurance upon the younger woman's life, payable only in the event of her death prior to that of the elder woman. It is not a usual case, but there ought to be some way of obtaining such insurance protection when it is needed. We issued the policy. Now, it is true that under the present bill if application is made to the insurance commissioner and all the other companies are duly summoned, and so on, extra forms can be made standard, but all this involves considerable time and trouble. In the instance referred to it might have defeated the purpose for which the policy was asked for altogether on account of taking too much time. Again, we have been in the habit, in some instances, when a risk was deemed on the whole not unfavorable for a limited period, but was thought not to have the promise of long life, of accepting such a risk on what is known as the 'semiendowment' plan.

This is similar to an endowment with the exception that only one-half of the face of the policy is payable at maturity instead of the whole. The premium on such a policy is considerably less than on the endowment, and the applicant is thus saved a larger outlay in premium, and the risk is carried for the time for which it is considered an average one. Such policies would also be shut out. Then in regard to the minor points, some of which I have mentioned a short time since, about which the companies differ to some extent, but which seem to involve adverse selection and consequently would be of disadvantage to the whole body of policy holders.

It may be, as was suggested by Mr. Gore, that one company is better equipped by the training of its agents and experience in that particular line to minimize any unfavorable results from incorporating such a privilege or benefit, while with others it would perhaps have quite different results. Just as in the case of individuals, companies have, to a certain extent, distinct characteristics, and probably the best results are obtained because they have. One company may handle one thing better than another, and vice versa, and hence such details should be left to their judgment. It has been pointed out several times to the committee that standard policies kill all initiative, put no premium on any inventive skill in the construction of any forms of contract or any benefits, and are a distinct check to progress. Very often a new company seeks to obtain business in the face of competition of the older and stronger companies by having some special form of policy which it thinks is especially desirable. The new company, which it is desired to encourage, would have another difficulty put in its path by restricting it to exactly the same forms of contract as those issued by the largest and strongest and best-known companies. There doubtless should be some supervision as to policy forms. Some new companies are now offering too much in their policy contracts, but this can be cured to a considerable extent by insisting on an adequate reserve to cover all benefits promised. If the intention be to reduce all the companies to the same dead level

of uniformity in every particular, it may be possible for a policy holder by a little care to determine exactly which one furnishes the cheapest insurance, but if that principle were followed by all applicants it might result in all the business eventually going to two or three companies, or even one, which would then have the monopoly of the business, which of course is not desirable nor intended.

Recent events may have shown that the existing laws are not sufficient to meet existing conditions, but it is a question that needs to be very thoughtfully considered whether restrictive legislation, while reaching perhaps the particular evils now in mind, may not lead to others possibly worse. Modern medical practitioners, more capable probably than ever of making a correct diagnosis, hesitate more and more about the use of drugs, except when absolutely necessary. They fear that their diagnosis may not be correct, and even if it is, that heavy doses of medicine while reaching the particular trouble may eventually have other effects that would be quite as unfavorable. It may be the same with regard to life-insurance legislation. At any rate the greater the number of details proposed for a law, the greater wisdom required to foresee what the effects of all those details will eventually be.

Further, every benefit insisted upon which may in the actual experience be enjoyed by only a portion of the policy holders costs something, and this cost is borne by all in the shape of a decreased dividend. Even additional statistical information called for in the publicity provisions requires extra labor and therefore extra expense, which is borne by the policy holders, for in most companies the policy holders are, to a greater or less extent, partners in the concern. The increased expense of getting new business and the continued decline in the rate of interest obtained upon invested funds have played the largest part in decreasing dividends, and hence increasing the cost of insurance to the policy holders. They have not been the only factors, however. The increased liberality of the policy contracts have also diminished profits. Perhaps in the old days the companies gave too small cash values upon surrender of the insurance, but the surrender charge exacted was a source of profit to be divided among the persistent policy holders in dividends. This profit is now largely cut off by the voluntary increase of such cash values by the companies themselves.

It is a common remark that in most lines of mercantile activity that there has been such a decrease of profits that on each transaction that it is necessary to do twice as much business now as was formerly required to make the same aggregate profit. While the same thing is true of life insurance, every new policy adds a new partner to the concern, so to speak, who is to receive a share in the aggregate profits. The number of partners increases with the increase in the volume of business.

These things are mentioned because it seems that they should not be overlooked in any attempted performance of the tremendously difficult task of enacting any detailed legislation for such a complex, technical, and far-reaching business as life insurance has grown to be.

Mr. STERLING. I suggest that Mr. Curry now proceed for fifteen minutes.

Mr. DRAKE. Permit me, Mr. Chairman, to explain Mr. Curry's

position. He is the examiner of the insurance department of the District. He is also a member of the Washington bar, and, in connection with the corporation counsel, he has had the legal features of the department to attend to. He is perfectly familiar with the details of the topic about which he will speak.

STATEMENT OF MR. DANIEL CURRY, EXAMINER, DEPARTMENT OF INSURANCE, WASHINGTON, D. C.

Mr. CURRY. Mr. Chairman and gentlemen, the subject I wish to be heard on is that of assessment life insurance in the District of Columbia, but more especially that portion of it which relates to the industrial feature. Companies of that kind issue only very small policies. The average, I think, is about \$30, and we have designated them and they are known elsewhere as sick, accident, and death benefit associations. In most of the jurisdictions they are cooperative, but here they are not.

It is a rather unusual condition of affairs. When the department was created in 1902 it found six or eight or nine of these companies doing business, and there was very little law to justify them, and the law under which they claimed to operate was what is called the assessment law, and the provisions of that law are found in the Code, section 653, for which we have an amendment. There have been, by the way, from eight to a dozen amendments made and submitted, and the present section requires only that these companies shall pay the full amount of their certificates and to show that one assessment on their membership is sufficient to pay their largest policies issued by them. It does not require them to have any capital stock, deposit, or reserve. There is no requirement as to that, so that they incorporate with any amount of capital stock that they see fit. They do, however, have a small capital stock to get control of the business. They are rather close corporations, and each is owned by a few persons. They have incorporated, I think, with from \$900 to \$20,000. There are 14 of them now incorporated in the District of Columbia.

Mr. TIRRELL. They have to pay the capital in?

Mr. CURRY. Yes, sir. There is another section of the code which requires that all companies or associations shall have their capital, as required by their certificates of incorporation or their by-laws, paid up in cash, and the Department has always insisted on having that done. The great difficulty experienced with these sick, accident, and death benefit associations has been that they can incorporate and do business on practically nothing.

Up to within a few months ago, when the incorporation act was changed—they are now charged a minimum of \$25 for a charter from the recorder of deeds—they could start a company with \$2, and they did not require any working capital, either.

Their mode of operation is to get agents to go out and get business, and their pay usually is the first fifteen collections they make from the people. They collect weekly. All these companies collect weekly except one, and it collects by the month. They provide no security for the people except what they see fit to have, and what they call a reserve fund, but it is not scientific, and it is not required by law. Any amount is sufficient to meet what provisions of law we have.

Mr. TIRRELL. I understood day before yesterday by the statements made that for every dollar in these companies in the District of Columbia that was collected, 75 cents went to pay the expenses of the company. Is that so?

Mr. CURRY. Yes, sir; and that condition is the result of the law and the nature of the business, because anybody can start a company. We have fourteen companies of our own here and four from surrounding States.

This kind of business is peculiar to the District of Columbia and only a few contiguous States. I would suggest here, if this bill becomes a law, that it need not be incorporated in the Ames bill, because nobody would want to copy this provision, because nobody else has the same conditions as prevail here.

Mr. STERLING. You say the agents are paid out of the premiums which they collect?

Mr. CURRY. Mostly. Sometimes they pay a small salary and commission.

Mr. STERLING. And they receive about fifteen of the first premiums?

Mr. CURRY. Yes; ten or twelve or fifteen of the first weekly premiums.

Mr. STERLING. You say the companies are owned by the people who incorporate them?

Mr. CURRY. Yes, sir.

Mr. STERLING. How are they compensated for their services? Do they get salaries?

Mr. CURRY. They get salaries; and, strange to say, their annual reports never show any dividends, except in one instance. I have noticed one here this last year, which shows a dividend of 100 per cent on the capital stock.

Mr. FLOWER. Is it any of the business of the department here, or insurance officers, whether any concerns here earn dividends and declare them or not?

Mr. CURRY. We have no control over that.

Mr. FLOWER. As to any stock company, either personally or officially, is it the business of the department of insurance whether they declare dividends or not?

Mr. CURRY. No, sir.

Mr. TIRRELL. If the company is incorporated, is it not the business of the public to know that that corporation shall conduct its business in such a way that the public receives a legitimate benefit from it?

Mr. CURRY. Yes, sir; and even the imperfect insurance law that we have provides for statements to be rendered to the department of insurance. But some of these companies have refused to render statements for the past two years, and when the department got after them for their failure they mandamused the department, and the matter is now pending in the court of appeals.

Mr. AMES. Your insurance law for the District of Columbia is then lacking in certain necessary provisions?

Mr. CURRY. It is lacking in a great number of respects, and that is the reason why we are advocating this bill.

Mr. STERLING. These companies report, do they not, to the insurance department, or to the superintendent of insurance?

Mr. CURRY. Some refuse to report.

Mr. STERLING. Do those that do report, report how much they have collected from the policy holders, and how much they have paid back?

Mr. CURRY. I have the figures on that here.

Mr. EVANS. Can you tell us whether section 653 of the District Code does or does not provide for the full report of assessment insurance companies?

Mr. CURRY. It does.

Mr. EVANS. Do not these protesting companies file with the department a report in strict accordance with section 653?

Mr. CURRY. For what time?

Mr. EVANS. For the year 1904?

Mr. CURRY. No, sir. That is the contention of the department. That is the case that is being litigated now. They did not file the annual financial statement.

Mr. EVANS. Did they not file a report strictly consistent with section 653? Did they not do it?

Mr. CURRY. They probably did; but they refused and still refuse to file, and for the last two years have refused to file, the annual statement showing the conduct of their business, required by other sections of the code, and the section you [addressing Mr. Evans] refer to, section 653 of the code, gives no information for the public. They simply say they pay the full amount of policies.

Mr. TIRRELL. I do not think there ought to be a controversy here about that.

Mr. STERLING. No; I think not. We are not so much interested in what these individual companies have done. What we are interested in is the principle on which this business is run.

Mr. CURRY. The present condition of affairs is brought about by the unusual number of companies and the ease with which they can incorporate, and any of these agents can go out now and with \$25 start a company, and the people who are their policy holders know chiefly the agents. Those agents will say, "If anything is going to happen to the company I will get you out of it and get you into a good company." The people have to be in the companies a certain number of weeks before they get any benefits at all, and then when they do get benefits they do not at first get full benefits, but get only half benefits, and so, by taking these poor people around from one company to another, it results in a great damage being done them.

Mr. STERLING. Let me ask you a question: You say you have the figures there showing the amount of money collected from the policy holders that goes back to the policy holders in the way of losses?

Mr. CURRY. Yes, sir.

Mr. STERLING. You ascertained those figures from the reports made?

Mr. CURRY. Yes, sir; sworn reports.

Mr. STERLING. I do not know whether you were here the other day when Senator Bulkeley was here, but he submitted a copy of a report made by his company for 1904. Did you ever examine that report, or any annual report of that size?

Mr. CURRY. Which report is that?

Mr. STERLING. The Aetna Life Insurance Company, of Hartford.

Mr. CURRY. I have seen that report, but it has no relation to this kind of a company.

Mr. STERLING. I know; but can you take this report and ascertain from it how much this company collected from the policy holders, and how much it paid back in a particular year to the policy holders in the way of death losses, endowments, and annuities?

Mr. CURRY. Yes, sir. It is all given in the report.

Now, with regard to the amounts, here are six companies. It is not necessary to read the names of the companies, because one of the gentlemen yesterday refused to tell the name of his company—I do not know for what reason. The first company collected \$27,073, and paid back to the policy holders \$3,132, and paid for expenses \$26,318.

Mr. STERLING. What per cent is that of the amount collected?

Mr. CURRY. Paid to policy holders $11\frac{1}{2}$ per cent. The rest went to expenses. The next company collected \$27,052, and paid back \$10,866.

Mr. STERLING. What percentage is that, Mr. Curry?

Mr. CURRY. Forty per cent; 60 per cent went for expenses. I will just give you the percentages. The next company paid back 23 per cent to the policy holders. The next one paid back 22 per cent, and the next 17 per cent, and the next 24 per cent.

Now, the reason for that is, gentlemen, apparent, from what an outsider can learn of this business and from their sworn statements furnished to the department. It is the temporary nature of the insurance that these people have; very small amounts, and they do not stay in the company very long, and they are dragged around from one company to another. When new companies are formed they go into the new companies. Sometimes a company will have to buy the same business more than once in a year. That is what runs up the expenses. Then it costs them a great deal of money to collect this money, because they collect it in small amounts. They call on the policy holders by the week, and collect from 5 cents to 25 cents, and so on.

Mr. STERLING. How do these percentages compare with the percentages that the old-line insurance companies pay back to their policy holders?

Mr. CURRY. I suppose this is probably not more than half as much.

Mr. EVANS. How about the conduct of the department toward the old-line companies? Is not the only old-line company doing business here paying back about 25 per cent?

Mr. CAVE. Mr. Chairman, may I be allowed to ask one question?

Mr. STERLING. Yes.

Mr. CAVE. I ask what percentage was paid of the gross receipts by the largest industrial company doing business in this District, or in the United States, for the last year, or any number of years?

Mr. CURRY. You mean the companies doing business that report to the department—sick, accident, and death?

Mr. CAVE. No; industrial companies.

Mr. CURRY. I have not the percentages.

Mr. CAVE. I can answer the question. It is about 29 per cent, the largest industrial company in the country. It compares favorably with the aggregate of these.

Mr. STERLING. Now, just to get into the record here a comparison of the percentages paid back to the policy holders by these industrial institutions and those paid back to the policy holders in old-line life

insurance companies, I have here a statement showing that the *Ætna Life Company*, from the time of its organization down to 1896, collected \$169,000,000, and paid back \$60,000,000, being 35.59 per cent. The *Equitable of New York* is another illustration. It paid back 26.67 per cent. The *New York Life* paid back 27.73 per cent. The *Phoenix Mutual*, of Connecticut, paid back 36.77 per cent. Is it not a matter of fact that very little more is paid back by these old line companies of the money actually collected from the policy holders and the income from their assets—but very little more—than is paid back by the industrial institutions?

Mr. CURRY. The average varies between 22 and 23 per cent.

Mr. STERLING. I am not eliciting this as a justification of the industrial insurance. My idea is that they are all very expensive propositions. I just wanted to get into the record a comparison of the two kinds of insurance with reference to the amount of money that came back to the people who pay their money into the treasury of these companies.

Mr. DRAKE. The two systems are so much at variance that you can not get a percentage by way of comparison that will be of any value. For example, the mortality in the industrial companies is 100 per cent more than under the ordinary system, and ordinary reserve is a legal requirement under the law. You did not go far enough in that statement in simply taking returns to policy holders. The reserve should be taken into consideration.

Mr. STERLING. The amount to be considered should be the amount returned to the policy holders, and if these policy holders do not get a substantial part of all they pay in, exclusive of the actual and liberal running expenses of the company—if they do not get back all that they pay in, except the expenses necessary to carry on the business, then the policy holder is the man that suffers. Is not that true, Mr. Drake?

Mr. DRAKE. Yes, sir; except that in the old-line companies you must remember the reserve; you must bear in mind the reserve, which is equivalent to deposits in a bank.

Mr. STERLING. Yes, but the difference is this, that in the industrial institutions it all disappears somewhere.

Mr. DRAKE. Not necessarily in the old-line companies; all of them carry a reserve.

Mr. STERLING. In the old-line companies what has not been paid back to the policy holder is held in reserve; but will the policy holder ever get it?

Mr. DRAKE. He will ultimately get it.

Mr. STERLING. Let me call your attention to the statement made by a gentleman the other day, Mr. Scovel, who said that the *New York Life Insurance Company*—I think that was the company he used as an illustration—had at the present time about \$400,000,000 of assets, and if it did not write another line of insurance for the next ten years, with the premiums it collected and the interest on its securities and rents on its real estate, it would increase in ten years to \$1,000,000,000, and at the same time pay all losses as they accrued in the next ten years. That is what Mr. Scovel says, so that where it is necessary now for these people to go on paying premiums in there when this fund will continue to accumulate, regardless of the paying in of premiums

in the future? It will grow all the time, and in the end, if they should cease to write all business—in the end there would be millions and millions of dollars after every policy is paid.

Mr. DRAKE. There could not be a dollar. The American table of mortality terminates its policies at age 96, and the combined experience at 100. An old-line insurance policy issued on the legal-reserve plan, on the life plan, is merely an endowment. Now, the theory is that we start out with a hundred thousand healthy persons at age 10, and the average net premium age 35 on the basis of a $3\frac{1}{2}$ of American mortality would be \$19.91, and you would have to charge that man to the end, if he lived to 96, which would be sixty-one years. At the beginning of the ninety-fifth year there would be 3 out of 100,000 on the American experience table, having started at 10, who would be surviving, and the \$19.91, together with the interest less the current mortality, would exactly equal the face of the policy; the theory being that every man who had passed out had received his insurance at actual current cost and received back the all-over payments with interest accretions. The two systems are entirely at variance. The assessment insurance system that these companies are operating under carry no reserve.

Mr. STERLING. Is not that wholly immaterial in considering which is the most valuable to the man who holds the policy? What is the difference how he gets his benefit, whether it is on account of the reserve being there in the one case, and in the other case on account of the assessment?

Mr. CURRY. He gets it in each case.

Mr. STERLING. You take a dozen of the old line life insurance companies of the United States, and is it not a fact that their accumulations at the present time are sufficient, so that if they should seek to write policies, to enable the income on their assets in the way of rents and interest to more than pay their policies that fall due by death?

Mr. DRAKE. Yes; on the theory that they should be returned. No dividend is calculated on lapsed policies. It is calculated on the theory that the man would be as true to his company as it is to him.

Mr. STERLING. Assuming that those policies run to maturity and there are no lapses at all, if that is not sufficient to pay out these policies, then all the premiums that are paid in right along are in excess of what is necessary to make good the obligations of these companies? Is not that true?

Mr. DRAKE. I do not look upon it in that way, sir.

Mr. STERLING. It is a fact, as I understand it, sir, and it may be true of other companies; but there is one known as the Pennsylvania Insurance Company—

Mr. DRAKE. The Pennsylvania Mutual?

Mr. STERLING. No; it is a Pennsylvania Company for the Insuring of Lives and Paying of Annuities. I think that is the title of it.

Mr. DRAKE. Is it a recently organized company?

Mr. STERLING. No; it is an old company and has not written any policies for years; has not done any business for years. At the present time its assets are \$12,800,000. Its outstanding policies are \$157,000. Now, that company, if it pursues its present policy of not writing any more insurance, will go on, and as these policy holders die they will pay out this \$157,000, leaving more than \$12,000,000 assets at the end of that time. Is it not a fact, under those condi-

tions, that that company has collected infinitely more money than was necessary?

Mr. DRAKE. The fact that it has not disbursed its excessive cost currently is the reason for that condition.

Mr. STERLING. If it has got \$12,000,000 it has charged too high on premiums?

Mr. DRAKE. Yes; it has not treated its policy holders properly; that is, on the mutual basis.

Mr. CURRY. The bill recommended by the department of insurance to cure these evils that are complained of was the bill H. R. 18894. A bill was afterwards introduced by Mr. Smith that was not approved by the department, on May 10. That bill is practically the same as the bill recommended by the department, with uniform policies left out. The idea of uniform policies did not originate with the department, but was suggested by the subcommittee. The department has not very much faith in such a thing.

The bill H. R. 19154 is approved by the department with some very slight changes, because in changing the bill they practically take all of the department's bill, and half way down page 5 they put in a part of the section that is carried in another page. We struck out three lines, from the period in line 15, page 5, and line 16 and line 17.

On line 18, after the word "all," we put in the words "classes of," and in line 19, after the word "shall," we put in the word "respectively," making it read, "all classes of companies or associations named herein doing business in the District of Columbia shall respectively issue uniform policies or certificates, the form of which shall, before such issue, be approved by the superintendent of insurance, after a hearing to be fixed by him on notice to every assessment insurance company or association mentioned herein, either on his motion or on application of a majority of the companies or associations interested," etc.

On the next page, by mistake, as I understand from the gentlemen who compiled this bill, they left out the provision for the companies to be licensed by the District of Columbia, and they say that that is satisfactory to them. And in line 18 they left out the words, after "herein," "or whenever its liabilities exceed its assets."

Mr. CAVE. I wish to make a correction there. I have had a good deal to do with the preparation of that amendment. That is the first I have heard that it was not approved by all of them. That bill was approved by all of them.

Mr. CURRY. Not all of them. We make it read:

Whenever the market value of the bonds so deposited as aforesaid by any assessment company or association mentioned in this section shall fall below the amount required herein, or whenever its liabilities exceed its assets, it shall be the duty of the superintendent of insurance to suspend the license of said assessment company or association, and unless the deficit be made good within thirty days thereafter he shall revoke its license.

It was sixty days, and we have stricken out "sixty" and made it "thirty days," to conform with another provision over here on page 7, which says:

Every such assessment company and association shall be required, when necessary to pay its death and indemnity claims, to levy extra assessments on its members; and any such assessment company or association that fails for a period of thirty days after notice from the superintendent of insurance to comply with any provision of this section, or fails to pay within thirty days a final judgment

or decree rendered against it by any court of competent jurisdiction, shall have its license to transact business revoked; and such judgment or decree may be satisfied from any deposit hereinbefore provided to the credit of defendant company or association on petition to be filed by the party or parties in whose favor said judgment or decree may be.

We strike out of line 3 the words, "in addition to regular dues" and insert, after the word "levy," the words "extra assessments," so that the lines will read, "to levy extra assessments on its members," instead of "assessments in addition to regular dues."

These companies do not have dues. They sometimes prefer to call them dues rather than assessments, but they are assessments. The Department approves this bill as it is read.

Mr. EVANS. Does that provision, as approved by the department, compel the companies to pay final judgment in thirty days? Does the department of insurance insist upon the companies paying for final judgment within thirty days?

Mr. CURRY. Yes, sir.

Mr. EVANS. Under penalty of a revocation of its license?

Mr. CURRY. I think so.

Mr. EVANS. Can you tell us why the company should put up a reserve fund in the registry office of the supreme court—a reserve fund—and then why the additional requirement should be made that they should forfeit their charter and go out of business if they do not pay a final judgment or decree within thirty days? That is, Why should they be obliged to get it coming and going?

Mr. CURRY. One reason is that a company may go out of business.

Mr. EVANS. That is where the deposit in the Treasury should come in.

Mr. CURRY. That is one of the benefits of the deposit. There are other good benefits coming from it.

Mr. EVANS. How about going out of business?

Mr. CURRY. Congress delegates to the department the power—

Mr. EVANS. Why is that proviso placed in the bill? Why do you have a double-barreled provision of that kind? They put up \$10,000, and then you provide they must go out of business. I do not understand it. You will excuse me, Mr. Chairman, for interrupting.

Mr. CURRY. The bill provides that any final judgment can be paid out of this deposit.

Mr. EVANS. But it provides also that you shall put us out of business if we do not pay it.

Mr. CAVE. It provides that you will have thirty days to make good the deficit.

Mr. STERLING. That is the sense of the bill, is it not?

Mr. CAVE. Yes, sir.

Mr. EVANS. That would be all right, but the additional requirement is that if we do not meet these judgments the superintendent of insurance shall cancel the charter of the company.

Mr. HENRY E. DAVIS. The short of it is, that if the company goes out of business there is nothing to fall back upon. The very language of the bill is that this deposit shall be for the purpose of guaranteeing—

Mr. EVANS. I am not talking about the deposit.

Mr. CURRY. A corporation that will not pay a final judgment has no right to do business or have the confidence of the public.

Mr. EVANS. We are required to pay \$10,000 in some way or other to comply with the demand that we shall do certain things. Then in addition to that you have another requirement there, that if the company does not pay within thirty days the final judgment or decree of the court it shall be estopped from doing business. You have not answered my question at all. That is a different thing entirely that you speak of.

Mr. STERLING. Suppose there is a judgment of \$1,000, Doctor, and you draw on this deposit of \$10,000. You have thirty days in which to replace it and make your deposit good?

Mr. EVANS. That is also in the bill, Judge, that you shall make this judgment good within thirty days or be put out of business. That is independent of the matter I referred to before. That is in addition to the provision that we must make it good or go out of business. There is an additional requirement that every company that fails to pay a final judgment against it in thirty days shall have its salary revoked.

Mr. STERLING. Is there anything further, Mr. Curry?

Mr. CURRY. No, sir.

Mr. DE ARMOND. I would like to ask you whether you know that a good many of the same persons are in several of these companies as incorporators—whether it is something of an industry to get up these companies?

Mr. CURRY. To a small extent, in one or two instances. I know where a gentleman bought one or two shares in another company and they refused to recognize him. They seem to be afraid of each other.

Mr. DE ARMOND. They could start another one of them and it would not, of course, be much of a temptation, then, to interfere with another one?

Mr. CURRY. No, sir.

Mr. COCKRELL. I understood Mr. Curry to say that there were fourteen of these companies in all; that each one was owned by a few people, and controlled by a small group. Do you want to correct that? Is that your understanding?

Mr. CURRY. So far as my experience and examination go, I say only a few people do own these companies.

Mr. COCKRELL. There is no exception, so far as you know?

Mr. CURRY. Not that I know of. It is not a kind of concern that people buy stock in, the kind that are in this industrial assessment business.

Mr. DE ARMOND. In other words, they do not buy stock when they can get it for nothing.

Mr. EVANS. Have you found any excessive salaries beyond a fair rate of remuneration, or any excessive profits in these companies? Or have you found any evidence that they could not promptly meet all obligations as they accrue?

Mr. CURRY. I think that is best answered by showing the expense.

Mr. EVANS. That is not an answer at all. That would be an acquiescence in my statement.

Mr. DE ARMOND. You (addressing Mr. Evans) should give the witness a chance.

Mr. CURRY. Some of the sworn statements of the companies will show that the salaries paid are nearly 100 per cent of the amount paid to all the policy holders.

Mr. EVANS. Are they excessive? In other words, what is the largest salary paid to any officer in the city?

Mr. CURRY. You know very well that the reports do not give what the individual insurance officials get. They give it in gross—

Mr. EVANS. Subject to examination.

Mr. DE ARMOND. They do not tell what the particular individual gets?

Mr. CURRY. No, sir. Not even the old-line life or any insurance companies do that. That is one of the contentions of some of the departments—to get them to do it—but they will not do it.

Mr. EVANS. Have you ever known of a man getting more than \$2,000 a year?

Mr. CURRY. Not to my actual knowledge. Of course I have heard that some get that much and more in these companies. You will notice also that these companies go on for years and years, and when started ten years ago they probably had \$1,000 and have not any more than that yet. It does not seem to make any difference how much they take in; they have the same at the end of the year.

Mr. EVANS. How many years ago?

Mr. CURRY. Say, ten years ago. I refer to some of them.

Mr. EVANS. You say that the reports show that for many years past they have not accumulated anything?

Mr. CURRY. From year to year they have not accumulated any more.

Mr. EVANS. You can show that?

Mr. CURRY. Yes.

Mr. EVANS. How many companies show that?

Mr. CURRY. I will read from one. I will read from your company.

Mr. EVANS. Yes.

Mr. DE ARMOND. What is that called?

Mr. CURRY. The Royal Life Insurance Company of Washington, D. C. "Amount of ledger assets December 31, 1902, \$829.75."

Mr. EVANS. Now, what was it in 1904?

Mr. CURRY. "Paid by members in that year, \$9,065.05; other sources, \$500." That was borrowed money.

Mr. EVANS. No, sir; that was contributed.

Mr. CURRY. Beg pardon. "Total paid to members, \$1,542." The total expense for that year—it does not show any dividends—was \$9,740.77; balance, \$654. On December 31, 1903, its assets were depleted about 50 per cent.

Mr. EVANS. Did it show any salaries?

Mr. CURRY. Six hundred and eighteen dollars to officers. "Commissions and fees retained and paid or allowed to agents on account of fees, etc., \$5,011.64." That is 50 per cent of the entire receipts, including the \$500 contributed. Then the "amount paid as allowances to managers and agents, not paid by commissions, \$1,358." The others are small amounts.

Mr. EVANS. Have you shown that for the past year—1904 or 1905?

Mr. CURRY. You did not render any financial statement for 1904 and 1905.

Mr. EVANS. You are privileged to examine our accounts at any time, are you not?

Mr. CURRY. If you are not required to have a license, as you claim, and you do not have to pay any taxes, I do not see where we would

have a right to examine you, and you claimed that; and you are in court now fighting the department because the department wants to make you comply with its construction of the code.

Mr. DE ARMOND. If I understood your figures, this Royal Life Insurance Company paid out in the year you gave us about \$1,500 to the policy holders and charged something over \$9,000 for doing it—if I got the figures right?

Mr. CURRY. That is what the people paid in premiums.

Mr. EVANS. It is a very young company.

Mr. DRAKE. Give the date of its organization.

Mr. CURRY. I have not the date.

Mr. EVANS. It was organized in the District in 1901. It had a small organization prior to that, and that was the second year of its organization under the laws of the District of Columbia.

Mr. DE ARMOND. I understand they collected \$9,000 and paid out \$1,500. It does not require the experience of age to know how to absorb all that it gets in. [Laughter.]

Mr. STERLING. If there is anything further along that line that you would like to put into the record you can prepare to answer after recess.

Mr. CURRY. Yes; I want to submit this bill that the department approves—the last bill introduced.

Thereupon, at 1 o'clock p. m., recess was taken until 2 o'clock p. m.

Substitute for H. R. 18894, with amendments proposed by the Department of Insurance of the District of Columbia.

A BILL to amend section six hundred and fifty-three of the Code of Law for the District of Columbia, relative to assessment life insurance companies or associations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Code of Law for the District of Columbia be, and the same is hereby, amended by striking out section six hundred and fifty-three thereof and substituting in lieu thereof the following:

SEC. 653. *Assessment life insurance companies or associations, sick, accident, and death benefit assessment companies or associations, also sick and accident assessment companies or associations.*—All assessment life insurance companies or associations, sick, accident, and death benefit assessment companies or associations, also sick and accident assessment companies or associations set forth in this section, shall be incorporated before engaging in business in the District of Columbia; and such companies may be incorporated under the provision of subchapter four of chapter eighteen of the Code of Law for said District, provided that every such company shall have cash assets of not less than one thousand dollars, besides the bonds to be deposited in the registry of the supreme court of the District of Columbia, as hereinafter provided; and before the articles of incorporation of any such company or association are admitted to record by the recorder of deeds, the superintendent of insurance and the clerk of the supreme court of said District shall certify to said recorder that the said company has complied with the above conditions relative to its cash assets and the deposit of bonds as hereinafter provided. Any insurance company or association hereafter transacting the business of life insurance on the assessment plan in the District of Columbia, whether incorporated in the District of Columbia or elsewhere, including sick, accident, and death benefit assessment companies or associations, and sick and accident companies or assessment associations, shall file, on or before the first day of March, with the superintendent of insurance a detailed annual statement, sworn to by its president or vice-president and its secretary or assistant secretary, showing its true financial condition as of the thirty-first day of December next preceding; also a statement, under

oath, showing that it pays the maximum amount named in its certificates or policies as the same become due and payable, and for the last twelve months has uniformly done so; and shall pay for filing such report as aforesaid the sum of ten dollars to the collector of taxes. Such assessment companies or associations shall furnish any other information not inconsistent with law that the superintendent may require. On failure by any such company or association to make and file any of the aforesaid statements or reports within ten days after notice from the superintendent of insurance, its license to transact business in said District shall be revoked by said superintendent, and the president, vice-president, secretary, and assistant secretary of said company or association shall be punished by a fine of not more than one hundred dollars or imprisonment in jail for not more than sixty days: *Provided*, That every insurance company whatsoever, anything contained in section six hundred and seventeen of the Code of Law for said District to the contrary notwithstanding, shall make the reports required of insurance companies by subchapters four and five of chapter eighteen of said code, and as in this section provided; and the companies or associations referred to in this section shall also furnish to the superintendent of insurance the statement of business required by section six hundred and fifty of said Code. Every such assessment company or association doing a life insurance business only that issues certificates or policies to individuals for not more than one thousand dollars shall deposit in the registry of the supreme court of the District of Columbia, on or before the thirty-first day of December, nineteen hundred and six, to guarantee the payment of benefits as provided for in its certificates or policies, United States, railroad, or municipal bonds the market value of which shall at all times be as much as fifty thousand dollars; and every assessment company or association doing a life insurance business only that issues certificates or policies for more than one thousand dollars shall deposit in the registry of said court, on or before the thirty-first day of December, nineteen hundred and six, to guarantee the payment of benefits as provided for in its certificates or policies, United States, railroad, or municipal bonds the market value of which shall at all times be as much as one hundred thousand dollars.

Any company or association that issues certificates or policies on the assessment plan providing for the payment of benefits on account of sickness or accident, in addition to an amount to be paid on the death of a member, shall be known and designated as a sick, accident, and death benefit assessment company or association, and any assessment company or association that issues certificates or policies providing for the payment of indemnity only on account of sickness or accident shall be known as a sick and accident assessment company or association.

All such sick, accident, and death benefit assessment companies or associations, and sick and accident assessment companies or associations, shall deposit in the registry of the supreme court of the District of Columbia, on or before the thirty-first day of December, nineteen hundred and six, to guarantee the payment of benefits as provided for in its certificates or policies, in lieu of the bonds hereinbefore required of assessment life insurance companies or associations, United States, railroad, or municipal bonds the market value of which shall at all times be as much as ten thousand dollars.

No company or association licensed to transact business as a sick, accident, and death benefit assessment company or association shall issue certificates or policies for greater amounts than five hundred dollars on the life of any one person.

All classes of companies or associations named herein doing business in the District of Columbia shall respectively issue uniform policies or certificates, the form of which shall, before such issue, be approved by the superintendent of insurance, after a hearing to be fixed by him on notice to every assessment insurance company or association mentioned herein, either on his motion or on application of the majority of the companies or associations interested. Forms of policies or certificates may be changed from time to time after similar notice and hearing. And no such company or association shall be entitled to do business in the District of Columbia without the approval of its policy or certificate by the superintendent of insurance, subject at all times to an appeal to the Commissioners of the District of Columbia; and such superintendent shall have power to revoke the license or to refuse to grant a license to any such company which shall issue any such policy or certificate in form not approved by the superintendent of insurance, subject to appeal as aforesaid.

All assessment companies and associations referred to in this section shall

be required to have from the superintendent of insurance and keep in force a license before transacting business in said District; and the clerk of the supreme court of the District of Columbia is hereby authorized, at the cost and expense of every of the said assessment companies or associations named in this section, to receive for deposit the bonds as provided for herein and to receipt for the same, and do all that is necessary to be done by him for the purpose of carrying out the provisions of this section. Whenever the market value of the bonds so deposited as aforesaid by any assessment company or association mentioned in this section shall fall below the amount required herein, or whenever its liabilities exceed its assets, it shall be the duty of the superintendent of insurance to suspend the license of said assessment company or association, and unless the deficit be made good within thirty days thereafter he shall revoke its license. Any interest due and payable on bonds deposited as herein provided shall be paid by the clerk of said court to the assessment company or association so depositing said bonds.

Every such assessment company and association shall be required, when necessary to pay its death and indemnity claims, to levy extra assessments on its members; and any such assessment company or association that fails for a period of thirty days after notice from the superintendent of insurance to comply with any provision of this section, or fails to pay within thirty days a final judgment or decree rendered against it by any court of competent jurisdiction, shall have its license to transact business revoked; and such judgment or decree may be satisfied from any deposit hereinbefore provided to the credit of defendant company or association on petition to be filed by the party or parties in whose favor said judgment or decree may be.

Any fund hereinbefore required to be deposited may be exchanged from time to time or may be withdrawn upon certificate from the superintendent of insurance that the assessment company or association depositing same has no liability on any outstanding policy: *Provided, however,* That nothing contained herein shall interfere with or abridge the rights of any fraternal beneficial association licensed to transact business under subchapter twelve of chapter eighteen of the Code of Law for the District of Columbia or incorporated by special Act of Congress: *Provided further,* That nothing contained herein shall apply to any relief association, not conducted for profit, composed solely of officers and enlisted men of the United States Army or Navy, or solely of employees of any other branch of the United States Government service, or solely of employees of any individual company, firm, or corporation.

AFTER RECESS.

The committee reassembled, pursuant to recess, at 2 o'clock p. m., Hon. John A. Sterling in the chair.

Mr. STERLING. Now, we will hear from Mr. Bergmann. If you are ready, Mr. Bergmann, you can now proceed. We will hear you.

STATEMENT OF MR. H. H. BERGMANN, OF WASHINGTON, D. C., REPRESENTING THE GERMAN-AMERICAN FIRE INSURANCE COMPANY.

Mr. BERGMANN. Mr. Chairman and gentlemen of the committee, I simply want to call your attention to a few of these sections, in the interest of local fire insurance companies.

In the first place I would like to call attention to section 2, page 2—

That all insurance companies now or hereafter incorporated by authority of any general or special law of Congress shall be subject to the provisions of this act, and to such laws as may be hereafter passed affecting or altering their corporate rights or duties or dissolving them.

Now all the local insurance companies are incorporated at the present time under the general law of incorporations. If the effect of this section is to be retroactive it would work a hardship upon

practically all the local fire insurance companies. I am only speaking of the fire insurance companies.

In the first place this code, on page 26, section 22, requires the capital stock of fire insurance companies to be not less than \$200,000. I do not know whether or not it is the intent and purpose of this law to be retroactive. My own company, the German-American, has only \$100,000 capital, and most of the other local companies have less. One, I think, has \$125,000 capital, and one other local company has \$200,000. If this law should be retroactive and should compel us all to increase our capital stock to \$200,000 it would work a hardship upon us. Most of the local companies have a pretty large surplus. My own company has a surplus of \$187,000 net over and above all liabilities. That is one point.

Then another one was in regard to the investment of the assets of domestic companies. Under section 26 the capital of domestic companies shall be invested only as follows:

First. In first mortgages of real estate not exceeding in all sixty per centum of its capital nor twenty per centum thereof in one mortgage, the market value of which real estate being at least double the amount loaned thereon at the date of investment.

Now that would work a hardship on every one of us. Probably most of the assets of fire insurance companies are invested in real estate mortgages, and I believe they are all first mortgages. My own company's investments are in first mortgages, but the real estate values upon which those mortgages are made are not invariably double the amount of the mortgage. The general rule, I think, is—it is with my own company—not to loan above two-thirds of the fair market value. That market value is usually fixed by appraisers of the company—the directorship of the companies, composed of local business men, men who have a good, fair knowledge of real estate values here in the District; and upon the valuation made by those gentlemen the loans are made.

Now, in a city like Washington, the capital of the nation, real estate values are not very fluctuating, and they are not boomed unnaturally; and that provision would work a hardship upon us, especially when you take into consideration the fact, which I think is the rule, that most of the companies—it is with my own—loan only upon improved real estate, property that has a rental value; and the experience of my company—and it has been in existence now thirty-three years—has been that in that whole time we have never lost one dollar on our real estate mortgages. In that whole time we have probably been compelled to buy in and foreclose not more than a dozen pieces of property. We have disposed of every one of them and sold them at a profit by reason of a subsequent enhancement of value. The local companies, inasmuch as they do a purely local business, have a field that is restricted to the District of Columbia, and a requirement of that kind would work a hardship to us. I do not think real estate values in Washington can be compared with a great many smaller towns throughout the country which are booming, and where their values are inflated and liable to collapse again.

Now, another thing I want to say in connection with that is, that we are required, under the present code, to render to the department

a complete list of all of our mortgages, in fact of all securities. We give in that the amount of loan, the time it was made, where recorded, the valuation of the property, the amount of insurance—every detail. Every year we furnish that complete list to the insurance department. The insurance department has already, once since it has been in existence, gone over our securities, and they are welcome to go over them every year if they see fit. I think this proposed code requires a thorough examination of all companies every three years. There is no objection to that at all, but when it comes to fixing arbitrarily the value of the real estate and the amount of loans that we shall make on real estate at 50 per cent of the market value, it works a hardship, and especially if that law should be enforced after the 1st of January, 1907, and be made retroactive, it would compel us, possibly, to call in a great many of our loans that are not up to that standard, but which nevertheless are considered good, safe security by any impartial examiner.

Then I want to call your attention to this fact, that in that same section you will find under the caption 7 a provision that the company may invest its assets in a note or notes of a citizen of the United States with a pledge as collateral of the securities above mentioned, mentioning mortgage bonds, railroad securities, etc., at not more than 75 per cent of the market value thereof. There you permit companies to invest up to 35 per cent upon collateral security, and upon real estate security, the best you can get, you hold them down to 50 per cent.

Mr. AMES. An interruption, Mr. Chairman. For the information of the committee I would state that the bill as drawn proposed that there should be no limitation at all upon the financial conduct of an insurance company except as to investment of its capital stock. We did not believe there should be any limitation upon the investment of bonds or premiums taken in. That was agreed to by the insurance commissioners, but the actuaries thought there should be a limitation, so that was changed from capital to assets. I myself think there should be no limitation as to the investment of funds.

Mr. STERLING. What is your reason for that, Mr. Ames?

Mr. AMES. This is the old Massachusetts law in regard to capital stock. A company may have its capital of \$200,000 or \$300,000 in proper securities.

Mr. STERLING. And its other assets too?

Mr. AMES. There has been no complaint on that. If there is any trouble it has been that the returns have been so great that the humans running the company could not handle them. Do you not think that is really the abuse that has come, rather than that the abuse came from not having it properly invested?

Mr. BERGMAN. I do not understand you.

Mr. AMES. Do you not think that the abuse, if any, that has arisen from the investment of funds of insurance companies could be traced to their being too well invested, rather than to their not being well invested, or to their being too poorly invested?

Mr. BERGMAN. I do not know just how to answer that.

Mr. STERLING. It goes rather to the question of safety than to the question of percentage of income.

Mr. AMES. Yes; this was a question of safety, following the New York law and the laws, more or less, of Connecticut and Indiana and

New Jersey, putting a limitation on the capital stock and making no limitation thereafter.

Mr. BERGMAN. If you make the limitation as low as 50 per cent, I think it is rather too high for the District of Columbia. I think a 60 or 65 per cent loan on a conservative valuation would be safe. These valuations are made by men of very conservative views, who do not take what a man considers his property to be worth. Take a piece of property probably worth \$6,000, as estimated by the owner, and he might possibly get it, but the chances are that the property would be valued at perhaps \$4,500 or \$5,000, and by taking 60 per cent of that, I think, you would have a very safe loan; and taking into consideration the fact that the property here in the District in the past years has, most of it, been steadily advancing and increasing in value, there seems to be very little likelihood of there being a large slump in real estate values here in the District.

Mr. AMES. A question: Do you think there should be a limitation upon an investment of the assets of an insurance company?

Mr. BERGMAN. No, sir. I would not put that limitation in the law. I would leave that to the good judgment of the men managing those companies, subject, however, always, to a revision by the insurance department. The insurance superintendent of the District, under the defective laws as they exist to-day, if he had the necessary help he would be perhaps willing to go over these securities and inspect the properties with experts, and I believe it is his intention some day to do that. And then if he should find the real estate securities of the companies too low in his opinion, let him pick out these and have them called in. But to arbitrarily fix a percentage above which you ought not to go will work a hardship; and I tell you now it could be circumvented by simply appraising the property higher. Who shall fix the market value? That is more or less fictitious, too.

Then there was one other point that I wanted to speak about, and that was in regard to the fee to be charged to agents and brokers. Section 87, page 110, provides—

That the insurance commissioner may, upon the payment of ten dollars, issue to any suitable person a license to act as an insurance broker to negotiate contracts of insurance or reinsurance, or place risks, or effect insurance or reinsurance with any qualified domestic company or its agents, and with the authorized agents within the District of Columbia of any foreign company duly admitted to do business within the District of Columbia.

In my opinion that fee is entirely too low. The present fee is \$50. It simply opens the door to every Tom, Dick, and Harry who has a little spare time on hand to take out an insurance license as a broker and go around soliciting insurance and placing it with this and that company, etc.

The trouble with our business here in Washington is that it is conducted by too many people simply as a side issue, and we would like to see, if there is going to be a model law made for the District, to be copied by other States, one enacted that would also tend to raise and elevate our profession. At present the rate is \$50. I think that is low enough, and I would suggest, in connection with that, that so far as the District is concerned, and the licenses and fees are concerned, that they be made about what they are at the present time. There is a \$50 license for a broker, a \$50 license for a principal agent, and a \$5 license for solicitors. In my opinion \$5 is very low, but a

solicitor of a company under the present law is restricted in the solicitation of business to that one company. He can not solicit for any other company, and if he brings to a company for which he is soliciting business something that the company does not want or can not take or is loaded up on already, he simply loses that much. He can not go and broker it elsewhere. That license of \$5 might possibly be left as it is, but I still think that a license of \$10 for the broker or a man who should make it the business of his life, or the principal business at least, would be low enough. I think he could well afford to pay \$50. I would like to see it made \$100. It would tend to elevate our profession.

I would like to ask Mr. Ames whether or not section 2 is to be amended so as not to be retroactive upon the companies now in existence?

Mr. AMES. We could not make a law that would be retroactive.

Mr. BERGMAN. You could not?

Mr. AMES. No, sir.

Mr. BERGMAN. That is what I have always understood.

Mr. AMES. That section was put in to cover, in the States, a situation that might arise similar to the Dartmouth College controversy in New Hampshire. So far as the District is concerned, Congress has the right to nullify or abrogate contracts, but that right does not reside in the other States, however.

Mr. BERGMAN. I think that is about all I wanted to say, Mr. Chairman. I simply wanted to call attention to these sections of the law which in my opinion would work hardship to the local fire-insurance companies.

Some of them have been in existence for forty or fifty years and longer, and have always met their obligations, and have a good surplus on hand and are doing a very conservative business.

Now we welcome an improved code, and we welcomed, a few years ago, the new insurance code under which we are working now, because prior to that this field was a field for all the wildcats of the country. We are perfectly willing to comply with all the publicity requirements of the present law, and of any new law that can be made; but we do not think it should work a hardship in the manner of our investments.

I thank you very much for your attention, gentlemen.

Mr. DRAKE. Mr. Chairman, we have with us an expert fire insurance man, who would like to speak along the same line.

Mr. STERLING. Does he desire to speak now?

Mr. DRAKE. Yes; if you please. He just wants to make a few suggestions.

Mr. STERLING. Who is it?

Mr. DRAKE. Mr. Hamilton, of Washington.

Mr. STERLING. Mr. Hamilton, we will hear you.

STATEMENT OF A. N. HAMILTON, OF WASHINGTON, D. C

Mr. HAMILTON. Mr. Chairman and gentlemen, I do not wish to speak before the committee as an expert, or as a manager of an insurance company or association. I will take only two minutes of your time.

There are two points that Mr. Drake called my attention to and asked me to bring them up, and those are these:

On page 97 you limit the appraisers to the citizens of the District of Columbia, which I do not believe is a good feature in any bill, for the simple reason that the commercial interests of the District of Columbia are very small. As an illustration, I might say that if there was a heavy loss in the Corcoran Art Gallery it might be advisable to the insured to have an appraiser from some other State. For that reason I do not believe you should limit the appraisers to the District of Columbia.

The other point you will find on page 100, line 1:

No insurance company shall insure in a single risk a larger amount than one-tenth of its net assets.

I think that there should be something added to that, something like "as per the last statement to the insurance commissioner." In that event we would know what the assets were to date from, and not understand it to be daily assets.

Mr. STERLING. What position do you occupy?

Mr. HAMILTON. Contract manager of the Board of Fire Underwriters of the District of Columbia. I do not appear here as a member of any insurance body, but simply as an assured, taking up these two points.

Mr. STERLING. Is Mr. Hay here now? If not, we will now hear from Mr. Brosnan.

STATEMENT OF MR. JOHN BROSNAN, OF WASHINGTON, D. C.

Mr. BROSNAN. Mr. Chairman and gentlemen, I shall address you as briefly as I can, realizing the importance of time in this discussion.

The bill in which I am interested is H. R. 19154, introduced by Mr. Samuel W. Smith, of Michigan, May 10, 1906, with certain amendments—at least I believe the department here has put a few amendments in. To my mind it comes nearer to the correct thing than any other bill offered to date. In the first place, it puts the assessment companies where they belong, in a class by themselves. This particular kind of insurance is the outgrowth of necessity. Those insured in these companies are mostly poor persons, and many of them improvident. The low wages they receive prevent them from saving anything toward the day of sickness. In fact these associations take in a great measure the place of public charity, as is well known by those of us who for years have been connected with this business.

I might continue on this theme so long as to tire you, but it suffices to say that there exists an imperative need for this class of insurance; also, honesty and responsibility in dealing with its members; the poorer the person the more need of wholesome protection.

Now, coming down to this bill, the District Commissioners and the superintendent of insurance are endowed with sufficient authority, as they should be. For example, first, it decrees that all companies must be incorporated, thereby making them responsible as companies; next, requiring them to make full reports of their workings to the insurance department, not only as to their income and expenditures, but also any other information they may desire, not inconsistent with the law.

Another good provision is that if any such company refuse to

furnish such information the officers may be punished by fine or imprisonment.

This penalty tends to bring about what all good citizens are in favor of, publicity, so that everyone may know in what manner these associations are dealing with their patrons. Secondly, there are three classes of insurance named in this bill; one which gives life insurance for large amounts they are required to have a deposit of \$100,000. Another that pays sick, accident, and death insurance—this is the kind of a company in which I am interested.

The bill provides for a deposit of \$10,000 by this class, which is ample, because the death claims are small in comparison to death insurance only; also, for the very good reason that members have an opportunity to draw benefits during their life, and in numerous cases receive more than they would in any industrial insurance that pay at death only. I can safely say, from an experience of sixteen years, that there is a need for industrial sick benefits insurance as there is for industrial life insurance only. The only difference is that it requires less capital, the \$10,000 required being ample, as I said before, and the District Commissioners and the insurance department have repeatedly stated in the hearings before the House Committee for the District of Columbia and at other times. I might go on further, but it would not help the case any.

Something was said here this morning about salaries paid in these companies. I think the best way to explain the thing is to take up ourselves. When I say ourselves I mean our own company. Our own company was thirty years old last February, and probably is the oldest company here of this class, with one exception—there is one other company that may be a little older, and possibly two companies—I will not make a positive statement about that.

The salaries of the officers during 1905 were \$4,540, a fraction less than 5 per cent, or, to be more precise, 4.9 per cent of the total income of the association, which was \$92,904.65. The officers give their full time and attention to the affairs of the association, with one exception. Their duties are exacting, both at the desk and in the field, supervising in an active manner the business of the association. The average weekly remuneration of these men is but the small sum of \$21.83, thus showing the conservative management of the association. The premiums are collected weekly at the homes of the insured, which is necessary owing to the peculiar class of people insured in companies of this kind, thus entailing great expense, as it necessitates the sending of an agent at least fifty-two times a year.

I have prepared here a table of averages which, I think, will be interesting information to your committee. These averages are based upon our experience. The average weekly premium is 14 cents, the average age is 25.9 years, the death insurance averages \$36.04. We find that the members drawing benefits average three weeks a year. This at the premiums cited above amounts to \$10.81 per annum. Taking the actuaries table of expectancy as a basis we find that a man at the age of our average member, 26, has thirty-seven future years of life and a fraction over. He during this time will receive from us \$402.89 in sick benefits and at death \$36.04, making a total of \$438.93. Using the American experience table his expectancy is 38.12 years, thus enlarging the total to \$446.82. Compare this with

the amount received from the amount received from an industrial company paying at death only. It is vastly more profitable for the wage-earners, who are the ones we do business with. It is not my intention to make any hurtful comparisons, but the facts show for themselves. At death a person would receive from the death company \$222.

Gentlemen, I believe that there is room for both classes of insurance. Herewith is a table of income, number of persons insured, and amount of insurance on new and old members; also policies written, and lapses, and net number of policies and insurance standing at the end of the years stated. In conclusion, will state that the great factor in our favor is the very conservative management and the infusion of new blood in the way of rapid increase weekly, for which the company has to pay to a great army of agents, both as canvassers and collectors, and if we did not use this means the company would not be able to stand.

There is one more thing that will tend to perpetuate these associations more than any other which I can conceive, and that is the standing before the public which this company would have should this committee report favorably on some regulation, and Congress pass bill 19154, which is asked for here by us.

Gentlemen, you can not understand how important it is to have us recognized before the public, before the department of insurance, and before everybody, because we have men going around here that probably go to your kitchens and canvass your servants, and we are looked upon with suspicion by a great many people; but we are doing good work.

Now, one other thing. It would prevent irresponsible agents from organizing companies without sufficient capital and then twisting the business of their former employers, which has been done in this District to a very great extent.

Before I conclude let me say, from the showing made here the natural question would be, How are you to continue the solvency of the association? I would answer that in the regular weekly assessments collected from the members, the right to levy additional assessments when necessary, and the deposit required by the proposed bill, and the natural consequence of good management in providing other reserves for working capital. When we say regular assessment we mean this premium that is advertised on our circulars—10, 15, 20, and 25 cents a week. That has been regarded always as the regular assessment. The question was brought up as to the word "dues." If this passes without putting the word "dues" in there—I won't say that Mr. Drake would do it; I don't believe he would, because he understands it, but the fear was that there might be some legal complication, which I am not quite able to understand.

Mr. Davis is here, and he will explain that part of it to you—that the assessment might require the sending out of a postal card or some other notice of that kind, like they do in the case of lodges. This is between the devil and the deep blue sea. This is between the fraternal orders and the regular life insurance companies. There is a little strata of people here that need that protection, and, as I said, necessity has established us and brought us this class of business, and there is no fancy business about it. We are here and have been doing business here straight along, and I believe every man connected with

it is a citizen of the District and has been for many years. I have myself been here since I was a boy. The men behind this company are men of honesty and character.

But what I wanted to get at, Mr. Drake, was if the question was put to you under this law that is now proposed, would the way we have been going on right straight along, the way we have of collecting, continue? Is that your construction?

Mr. DRAKE. No, sir; I want to explain right there.

Mr. BROSNAN. Excuse me, sir, I simply asked to get information before the committee.

Mr. DRAKE. There is a proviso that I have insisted upon in each case being put in the policy allowing the extra assessment if necessary. There is no law here that authorizes the incorporation of an assessment life insurance company, or of the assessment form of insurance company. We have tested both of the mutual cases in the Supreme Court and the Department of Justice.

Mr. BROSNAN. Yes; Mr. Drake has been very fair about that; and I will say he got our company to insert in red ink at the bottom of the policy this notice about extra assessments, so as to call it to their attention. We made no kick about that at all. We are willing to comply with any regulation that is put upon us that is fair.

This association has accumulated and deposited in the State of Virginia \$10,000, as required by the law of that State, and has sufficient to deposit another \$10,000 in the District of Columbia if called upon to do so. If your honorable committee had time to investigate you would find that it is the universal custom throughout several States, which deem it necessary to have deposits made by these companies.

Some one said here that this was peculiar to the District, this class of business, and I want to say that that is not so. I can count on my finger ends five or six States that have this class of insurance, and it is gradually growing all over the country. This whole industrial arrangement of insurance is not over twenty-five or thirty years old, anyhow, I believe. The Metropolitan sprung up from a society something like this, and now they have their millions, and the same way with the Prudential and other companies; and they are gradually going out of the small insurance into the larger insurance, and so it goes on. This system of insurance is young, comparatively, and this table I have presented here will show that during the past year, 1905, our company paid 28 per cent in claims to the members. Now, that compares favorably with any other insurance company, and we have accumulated some surplus, as I have shown you. We have over \$20,000. Our report of the Virginia company will show a little over \$20,000. Here is a report that is sworn to, and I will submit that if necessary.

In conclusion, I will quote from memory four or five States. There are Virginia, Maryland, Alabama—I am not quite sure about North Carolina, but I think North Carolina—Pennsylvania, Tennessee, Georgia, Florida, Texas, and nearly all the Southern States, and I am not sure about the other States up the other way or out West, but I am sure about the States I have named, and they vary as to deposits, some as low as \$1,000 and some up to \$50,000. Here in the District of Columbia we have only 300,000 people at most, and 90 per cent of our trade is among the colored people, and

they number about one-third of the population. We do have some white people insured, and we prefer them; they are better risks—everything better about them, but it is hard to get them from these other life insurance companies that are here. In these questions about a million dollars and all that—it makes me sick when you talk of a million dollars; I would not know what it looks like—so I hope we will get a respectable law here and give us a standing in the community, and whether we are tacked onto the Ames bill or no makes no difference to me, all we want to do is to continue to live and protect these people whose money we have.

In conclusion, I will again state that if this committee reports favorably and Congress passes this bill 19154, they will have conferred a favor upon the citizens at large, rid the authorities of annoyance, and placed this class of business upon a legitimate footing. Thank you for your attention.

Mr. DE ARMOND. Have you a copy of the kind of policy that you issue?

Mr. BROSNAN. No; but I see my friend here with a batch of policies, and he probably has one. (After examining several policies.) Yes; here you are.

Mr. FLOWER. How much did you say in Virginia?

Mr. BROSNAN. Ten thousand dollars.

Mr. FLOWER. What is the population of Virginia?

Mr. BROSNAN. I don't know; it is a great big State.

Mr. FLOWER. Is it sufficient in Virginia?

Mr. BROSNAN. They seem to think so.

Mr. FLOWER. Is it? If \$10,000 is sufficient for a State of 2,000,000, is \$10,000 required for the little District of Columbia with only 300,000?

Mr. BROSNAN. You will have to answer that for yourself.

Mr. FLOWER. Would it be too great?

Mr. BROSNAN. I am not going into that kind of an argument with you.

This is the table I spoke of, showing the income, numbers of persons insured, and amount of insurance on old and new members. Also policies written and lapses, and net number of policies and insurance standing at the end of the years stated from 1902 to 1905, inclusive, as well as the income, the amount of claims paid, and the per cent paid in the District of Columbia.

Year.	Income.	Policies.	Insurance, old and new.	Policies written.	Amount of insurance.	Policies lapsed.	Amount of insurance.
1902.....	\$56,627.15	34,057	\$702,267.50	22,485	\$449,700.02	20,578	\$490,398.75
1903.....	65,134.07	34,751	637,318.75	21,278	425,440.08	21,487	429,740.00
1904.....	80,778.19	30,650	555,298.75	17,386	347,720.04	13,422	201,738.75
1905.....	92,904.65	43,296	863,920.00	26,068	521,390.05	24,545	490,900.00

NET INSURANCE AT END OF YEAR.

Year.	Policies.	Amount of insurance.	Income.	Claims.	Per cent of claims paid.
1902.....	13,479	\$211,878.75	\$39,963.71	\$8,118.99	22
1903.....	13,264	207,578.75	41,777.47	10,272.39	24
1904.....	17,228	358,580.00	42,124.04	11,338.19	27
1905.....	18,751	375,020.00	43,080.64	12,231.88	28

Mr. CAVE. I would like to ask Mr. Brosnan whether the State of Virginia requires now a deposit of \$50,000 for companies of the kind Mr. Brosnan represents?

Mr. BROSNAN. I think that is the law. I think they have a new law passed during the last legislature.

Mr. CAVE. In March.

Mr. BROSNAN. In March. They appointed a new commissioner, I know. They had no department; they were under the auditor of the State.

Mr. Brosnan inserted the following policy:

THE PROVIDENT RELIEF ASSOCIATION, OF WASHINGTON, D. C.

Incorporated under the laws of the United States in the District of Columbia.

Home Office: Provident Building, Corner New Jersey Avenue and G Street NW.

Sick benefits, \$———. No. ———. Death benefits, \$———.

In consideration of the answers and representations made in the application for this certificate of membership, and of each of the statements made therein, all of which are hereby declared and understood to be warranties in law, and not representations; and in the further consideration of the payment of the sum of ——— cents at the office of this association, in the city of Washington, at the date hereof, the receipt of which is hereby acknowledged, and of the payment of the same sum weekly on or before every Monday subsequent to the date of this certificate, does promise, subject to the provisions and limitations herein contained, to pay, as hereinafter mentioned, the amount of funeral benefits specified in this policy.

And does further promise, conditionally, upon the receipt of the proof herein-after mentioned, and subject to the provisions and limitations herein set forth, to pay to ———, when absolutely disabled through sickness or accident from giving any attention or superintending in any manner their usual or any other occupation, the sum of \$——— per week, provided that in no case during the continuance in force of this certificate shall more than twelve weekly payments be made on the same during any period of twelve months. And the proof above referred to shall be the attending physician's certificate, written upon the blanks of the association (which shall be furnished on demand), countersigned by the medical examiner or any officer designated by the association, who shall have the right before countersigning any certificate to demand that the member be examined either by the association's medical examiner or by some other qualified physician in good standing, to be named and compensated by the association, and if there is no surface indication of sickness, or if the member declines to allow such examination, may refuse to countersign the certificate, and no benefits shall be payable thereunder. This certificate shall be furnished weekly by the member during the continuance of any such disability, and the receipt of such certificate during the week for which benefits are claimed, and the countersigning thereof, as aforesaid, shall be conditions precedent to any liability of the association.

And it is agreed furthermore, if the insured shall have any sickness, disability, or accident, for which sick benefits would be payable, and a qualified physician in good standing shall certify such sickness, disability, or accident to be permanent and probably incurable, and the medical examiner or any officer designated by the association approve the same, an amount equal to the death benefit will be paid, and this policy shall cease and be surrendered to the association. Also, that no obligation is assumed by this association prior to the date hereof, and on the delivery of this certificate the insured is alive and in sound health, and the first payment due after the issue thereof has been legally made while the insured is alive and free from disease.

And it is agreed furthermore, that no death benefits will be paid unless death occurs after twenty weeks from date of this certificate, but if the insured shall have any sickness or disability caused by accident after ten weeks from date of certificate, one-half of the sick or accident benefits specified above shall be paid, but the payment of such benefits will not act as a forfeiture of the right of the association to cancel this certificate during the first twenty weeks. No benefits will be paid for any sickness or disability having had its beginning

during the first ten weeks, or for death resulting from any sickness or accident having had its beginning during the first twenty weeks of membership, but the association will return all premiums paid on this certificate and cancel the same. After twenty weeks from date of this certificate the full weekly sick and disability benefit and one-half of the death benefit will be paid, and after one year from date of this certificate the entire death benefit will be paid.

Provided, however, That one-half weekly benefits paid under this agreement shall be construed to mean full weekly benefits in computing the number of full weekly benefits payable during the first twelve months of membership.

Provided further, That no more than seven weeks' benefits will be paid for any accidental injury sustained by the member. Said benefits to be added to any disability benefits paid during the year, and in no case shall more than twelve weekly benefits for sickness be paid in one year.

For and in consideration of said benefits the insured hereunder agrees to make the payments specified above, at the association's home office or any branch office designated by the association, on Monday of each and every week during the life of the insured hereunder, said payments to begin on the date hereof, and any additional sum or sums that it may become necessary to levy as assessments for that purpose.

And it is further agreed that if any payment shall be four Mondays overdue, the member, together with this certificate and all benefits hereunder shall, without further notice, stand suspended. A suspended member desiring to be reinstated may make payment in full of any sum or sums due, and if at the expiration of four weeks from the date of such payments all payments accruing during said four weeks have been paid, the member may be reinstated upon passing an examination satisfactory to the association. The acceptance, however, of such payment by the association shall be deemed to be conditional only upon the future reinstatement of the member, the association reserving the right to reinstate the member with or without a medical examination: *Provided further,* That no benefits will be paid for any accident or sickness occurring or having had its beginning during said four weeks, nor for death resulting from sickness or accident commencing or occurring during said four weeks: *Provided further,* That if any payment shall be more than four Mondays overdue, the member may make partial payments of their dues to the association or its agent, but no liability on the part of the association shall exist in favor of any member who is more than four Monday payments overdue, by reason of the acceptance of such partial payments, or until four weeks after the payment of all dues in full, as hereinbefore provided. Should the association decline to reinstate the applicant, the amount paid on account of reinstatement will be returned (within or at the expiration of said four weeks), or a tender thereof made, and this certificate canceled. Should the association fail to return or tender said last-mentioned amount within or at the expiration of said four weeks, said member shall be deemed to be reinstated; such reinstatement to date from the expiration of said four weeks.

If this certificate has been kept continuously in force for two years from date of this certificate, and no benefits have been paid thereon, an additional benefit of one-tenth of the mortuary value named on the face of this certificate will be added thereto, and for each year thereafter in which no benefits are paid, one-twentieth of the mortuary value named on the face of this certificate will be added.

This certificate of membership is issued to and accepted by the member, subject to the conditions printed on back, and the rules and regulations of the association.

Given under the seal of this association, at Washington, D. C., — — — — —.
[SEAL.]

JOHN BROSNAN, *President.*
WM. O'MEALEY, *Secretary.*

The following are the Conditions and Limitations referred to by which the obligation set forth on the face of this Certificate is explained and qualified, and subject to which it is issued.

1st. Payment of the death benefit may be made to either the executor or the administrator of said member or to the beneficiary designated upon the application for this certificate or subsequently designated by the member upon the association's form for change of beneficiary and filed at the association's home office, or to any other person appearing to said association to be entitled to the

same by reason of having incurred expense in any manner on behalf of said member for his or her burial or for any other essential purpose, and the production by or on behalf of this association of a receipt signed by either of the above specified persons shall be final and conclusive evidence to all intents and purposes that such sum has been duly paid unto and received by the person or persons lawfully and rightfully entitled to receive the same, and that all claims against this association under this certificate have been duly satisfied.

2d. If any statement made in the application for this certificate, whether made by the member or the soliciting agent, be in any respect untrue, this certificate shall be void, and all payments which shall have been made to the association on account of this contract shall belong to and be retained by the association.

3d. The member must keep the secretary of the association informed of his or her place of residence, and in case of his or her absence, to appoint some one to act for him or her as agent, to pay dues, and at the same time notify the secretary of the name and post-office address of such agent.

4th. No additional benefits will be allowed on subsequent certificates unless they contain express permission by endorsement thereon.

5th. The association does not pay benefits unless member is confined to bed seven consecutive days after proper notice has been filed at the office of the association during office hours. Going about feeling badly, doctor attending, does not come within the contract, and no benefits will be paid for same. No benefits will be paid for temporary insanity, except for such time member is actually confined to bed.

6th. The age of the person insured in this certificate shall be admitted on due proof, but if not so proven the amount of sick, accident, or funeral benefit payable under this certificate shall in no case be more than the single payment charged would have purchased by the association's rate in use at the register date hereof for such person's true age.

7th. Agents are not allowed to alter or discharge contracts, or waive forfeitures, or receive payments on certificates in arrears beyond the time allowed by the association.

8th. No payment made on this certificate while in force will be recognized by the association as valid or binding unless made to a duly authorized agent, and said agent entering said payment in the receipt book belonging with this certificate at the time it is made.

9th. This certificate and the receipt book containing the entries of payments made on the same shall be exhibited to the officers or authorized employees of the association at any time upon demand; and before any benefit can be claimed under this certificate, said receipt book must be presented at the office of the association.

10th. No member shall receive any benefits unless entirely disabled from performing labor, or paying any attention whatever to business of any kind, and under the care of a regular practicing physician. Weekly benefits begin only on receipt by the company of a written notice of the total disability and confinement to bed of the member hereunder, signed by the attending physician, who must be a physician in good standing and practice; said notice must also state the nature and character of sickness or disability for which benefit is claimed, and said benefit will be due seven days after the receipt of said notice, provided the said member shall furnish the association on or after the seventh day as aforesaid proof referred to herein as the "Certificate of attending physician," stating that the said member had been confined to bed for seven consecutive days as aforesaid, and that said confinement to bed was caused by sickness within this contract; each subsequent application for benefits must be in the same form and accompanied by the same proof as aforesaid. In no case will benefits be paid for less than seven days' sickness and confinement to bed as aforesaid. Members must positively be confined to bed in case of sickness, otherwise they will not be entitled to benefits.

11th. No benefits will be paid for sickness or death resulting through or by the member's own hand, whether sane or insane, or by being engaged in active military service, or in a fight or other violations of the law, or in consequence of the use of intoxicating drinks, opiates, or narcotics.

12th. Sick benefits will not be paid for accouchement or premature birth, abortion, or any disease of the genital organs in either sex. No benefits will be paid for death caused by abortion, venereal diseases, or violation of the laws of the land.

13th. In case of consumption, pulmonary disease, heart disease, rheumatism, sciatica, or paralysis, only one-half the amount of sick or death benefits due

under this contract will be paid for disability or death caused by such disease.

14th. And it is agreed, furthermore, that if the insured shall become insane or have any sickness, disability, or accident for which benefits would be payable, and a qualified physician should certify such insanity, sickness, disability, or accident to be chronic and probably incurable, and the medical examiner or any officer designated by the association approve the same, an amount equal to the death benefit at said date may be paid, provided the member having such chronic insanity, disability, sickness, or probably incurable accident has not previously received any benefits. Should any member receive any benefits for said chronic diseases or probably incurable accident, the sum or amount of money so received will be deducted from the death benefit payable under this condition, and this certificate will cease and be surrendered to the association. It is understood and agreed that this does not apply to any other benefits which may have been received by the member for any other sickness or accident.

15th. The failure of the collector to call for dues will not be deemed an excuse for nonpayment, as members can pay their dues at the office at any time during office hours.

16th. The association may require a member, beneficiary, or physician, or all of them to furnish an affidavit to adjust the terms of this contract.

17th. Beneficiaries must have something more than a pecuniary interest in the insured, as speculative policies are not issued by this association.

18th. No suit or action at law shall be maintained to enforce the performance of this contract until thirty days shall have expired after the filing in the principal office of the association of the proof of sickness, accident, or death, nor unless such suit or action be commenced within six months next after the sickness or accident for which the claim is made, if for sick or accident benefits; if for funeral benefits, within six months after the decease of the person insured under this certificate; and it is expressly agreed that should any such suit or action be commenced after the expiration of said six months, the lapse of time shall be deemed conclusive evidence against the validity of such claim, the benefit of any statute of limitation to the contrary being hereby expressly waived.

19th. It is the duty of the member to read this certificate, and if not correct, satisfactory, and in accordance with your application for same, return it at once, as the acceptance of this certificate is a guarantee that it has been applied for, read, understood, and accepted in good faith, and that the member waives all right of defense on account of agents misrepresenting or members not understanding contract.

THE PROVIDENT RELIEF ASSOCIATION, OF WASHINGTON, D. C.

Home Office: Provident Building, Cor. N. J. Ave. and G St. NW.

APPLICATION.

I hereby apply for a certificate of membership in the Provident Relief Association, of Washington, D. C., and promise and agree to make any and all payments that may be due by me under this contract, and to be governed by the rules and by-laws as they now exist or may hereafter be altered or amended. or, failing to do so, to relinquish all claims for benefits, and agree that this application and the certificate that shall issue from it shall form the contract between the association and myself.

Full name of applicant proposed for membership, _____.

Date of birth, _____. Age next birthday, ____ years. Race, W. or C. If adult, married or single. Sex, male or female.

Residence of applicant proposed, No. _____ street, city _____.

Occupation, _____. Per week, ____ cents.

Amount of insurance applied for: Sick benefits, \$_____; death benefits, \$_____.

Is said applicant now a member of this association? If so, give No. of certificate _____.

Is applicant now insured in any other company or society? If so, give names and amounts, _____.

Is said applicant now in sound health and been successfully vaccinated? _____.

When last sick and of what disease? _____.

Is said applicant blind, deaf, or dumb, or has any physical or mental defect or infirmity of any kind? Has said applicant ever had: Accident of any kind, cancer or other tumor, fits or convulsions; disease of the kidneys, liver, heart, or lungs; habitual cough, hemorrhages, pneumonia, scrofula, rheumatism, ulcer or open sores, insanity, or paralysis? Is the person ruptured? Has said applicant ever been under treatment in any dispensary, hospital, or asylum, or been an inmate of any almshouse or other institution? Has said applicant ever been declined or postponed by this or any other company or society for insurance or benefits? _____.

Name, etc., of beneficiary, subject to provisions of certificate applied for as to payment, _____.

Relationship, _____ Age, _____ years.

I hereby warrant the truthfulness of the answers to the above questions, that I have not withheld any facts as to my age, health, habits, or history that might mislead the agent or association, and agree that such and the conditions annexed shall constitute the authority upon which certificate shall be issued.

_____, Applicant.

I have this _____ day of _____, 190—, personally seen and examined the applicant proposed for membership and saw the signature made on the bottom of this form, and am of the opinion that said applicant is in sound health; that said applicant's constitution is good, and I therefore recommend said applicant to be accepted as a member.

_____, Agent's or Physician's Signature.

STATEMENT OF MR. DANIEL CURRY

Mr. Chairman and gentlemen, I wish to state that one of the strongest arguments in favor of the passage of the bill that we submitted is the provision allowing the superintendent of insurance to at least supervise the policies or certificates that are issued by these companies, and that the nature of those certificates and policies causes the department of insurance and the insuring public a great deal of inconvenience. I will read you a sample of the conditions of the policy.

[Reading from blank policy submitted by Mr. Brosnan, headed "The Provident Relief Association of Washington, D. C."]

In consideration of the answers and representations made in the application for this certificate of membership, and in each of the statements made therein, all of which are hereby declared and understood to be warranties at law and not representations, and in the further consideration of the payment of the sum of _____ cents at the office of this association * * * and of the payment of the same sum weekly, etc.

Now, one of these warranties is:

If any statement made in the application for this certificate, whether made by the member or the soliciting agent, be in any respect untrue, this certificate shall be void, and all the payments that have been made to the association on account of the contract shall belong to and be retained by the association.

Now, the application in part is as follows:

Is said applicant blind, deaf, or dumb, or has any physical or mental defect or infirmity of any kind? Has said applicant ever had: Accident of any kind, cancer or other tumor, fits or convulsions, disease of the kidneys, liver, heart, or lungs, habitual cough, hemorrhages, pneumonia, scrofula, rheumatism, ulcer or open sores, insanity, or paralysis? Is the person ruptured? Has said applicant ever been under treatment in any dispensary, hospital, or asylum, or been an inmate of any almshouse or other institution; has said applicant ever been declined or postponed by this or any other company or society for insurance or benefits?

And then there is a space about seven-eighths of an inch to answer all that "yes" or "no," and that is signed by the member. Then the agent makes this certificate—this is the agent's or physician's certificate:

I have this — day of — personally seen and examined the applicant proposed for membership and saw the signature made on the bottom of this form and am of the opinion that said applicant is in sound health; that said applicant's constitution is good; and I therefore recommend said applicant to be accepted as a member.

That is signed by the agent or company's physician, and the applicant that gets this certificate has got to warrant that any statement wrongly made by himself or this company's agent will invalidate the policy and forfeit all premiums paid thereon to the company.

Mr. HARTMAN. I represent the Union Insurance Company, and I would like to read our policy.

Mr. BROSNAN. With your permission, I would like to say that I do not know what the legal meaning of the word "warranty" is, but, as a matter of fact, we do not follow that up.

Mr. CURRY. I offer that as an argument in favor of the supervision of these policies by the superintendent of insurance.

Mr. DAVIS. Which we are all willing to have.

Mr. BROSNAN. We agree to that, yes.

Mr. CAVE. Ninety per cent of the companies doing business along this plan object to the provisions of that kind of a policy, and are not using it.

Mr. DE ARMOND. I notice in this statement just handed in, the Provident Relief Association—if I read it right—that in 1905 26,068 policies were written and 24,445 lapsed. Is that correct? I may be wrong about that.

Mr. BROSNAN. I guess that is correct; yes.

Mr. DE ARMOND. All right; it is immaterial.

Mr. BROSNAN. It goes to show that very little of it stands during the first year. It is very costly to get this business and to hold it, and that is where all this money goes; it does not go to the managers at all. There is not a man here connected with any of these companies that gets hardly a living salary out of it; those with the companies are simply hoping, hoping some day to build up a company.

Mr. DE ARMOND. According to this the average number lapsed is almost equal to the number issued, and one year the number that lapsed is larger.

Mr. BROSNAN. That was an error in bookkeeping. I took that from the reports, and I put it in exactly, and those reports are open to the investigation of anybody. That was an error where it showed that lapses were greater than the number taken out. But the others are absolutely correct.

STATEMENT OF MR. G. W. CAVE.

Mr. Chairman and gentlemen of the committee, I represent the American Home Life Insurance Company of Washington, D. C., a company doing business on the assessment plan, as authorized by an act of Congress of 1887, and amended by the insurance laws of the District of Columbia that went into effect January 1, 1902, operating under the provisions of section 653 of the Code of Laws of the District of Columbia.

I appear here for the purpose of explaining to this committee the absolute necessity of some insurance legislation at this time. House bill 19154 is the outcome of House bill 17142, which was introduced by Mr. Babcock, chairman of the Committee on the District of Columbia, in the House several months ago. A few amendments were added to H. R. 19154, principally by the members of the District of Columbia Committee in the House, after several hearings. Originally, the first hearing was given the local companies interested in assessment insurance in the District of Columbia by the superintendent of insurance; second, by the Commissioners of the District, and thereafter there were two or three hearings given, as I say, by this committee on the District. The corporation counsel, the attorney for the insurance department, the superintendent of insurance, and Commissioner Macfarland of the District of Columbia urged upon this committee the absolute necessity of some legislation such as contained in House bill 17142, which, as I say, has subsequently been amended, and now is contained in House bill 19154, which is before this committee.

Commissioner Macfarland, the corporation counsel, and the attorney for the insurance department appeared before this committee and urged personally the absolute necessity of insurance legislation on this subject. Their reasons were that companies of this kind could and are now incorporating and embarking in business in the District of Columbia without any security of any kind to their policy holders. For instance, I will read you in part a letter of the superintendent of insurance in answer to an inquiry written by a law firm of the District of Columbia concerning a company that was incorporated in 1904. I will leave the name of the company out, but will read the letter:

Yours of December 7, 1904, was duly received, and in reply thereto I beg to state that the so and so association of Washington is licensed by the department for the license year ending April 30, 1905. The nature and character of its business is that of industrial assessment life insurance. The amount of the capital stock authorized is \$5,400, 10 per cent of which, \$540, was paid in cash upon its organization, which conforms to section 613 of subchapter 4, chapter 18, District Code.

Thos. E. Drake, superintendent.]

SCHEDULE A.

[Filed February 25, 1905; J. R. Young, clerk.]

Law No. 47556.]

OFFICE OF THE DEPARTMENT OF INSURANCE,
DISTRICT OF COLUMBIA, 416-418 FIFTH STREET NW.,
Washington, December 10, 1904.

GENTLEMEN: Yours of the 7th instant was duly received, and in reply thereto I beg to state—

First. That the Puritan Life Association, of Washington, D. C., is licensed by this department for the license year ending April 30, 1905.

Second. The nature and character of its business is that of industrial assessment life insurance.

Third. The amount of capital stock authorized is \$5,400, 10 per cent of which (\$540) was paid in cash upon its organization, which conforms to section 613 of subchapter 4 of chapter 18 of the District Code.

Fourth. Under section 653 of subchapter 5 of chapter 18 of the Code, the matter of creating a reserve or emergency fund is left optional with the association. This association made no provision in its charter for any such fund, and the security to policy holders, over and above surplus, is confined to its paid-up capital stock and the surplus.

Fifth. This association was organized within the present calendar year, and, therefore, has not submitted to this department a report of its financial condition other than as it existed at the time it was licensed.

Yours, very truly,

THOS. E. DRAKE,
Superintendent of Insurance.

MESSRS. SHEEHY & SHEEHY,
406 Fifth Street NW., Washington, D. C.

SCHEDULE B.

[Filed February 25, 1905; J. R. Young, clerk.]

Thos. E. Drake, superintendent.]
Law No. 47556.]

OFFICE OF THE DEPARTMENT OF INSURANCE,
DISTRICT OF COLUMBIA, 416-418 FIFTH STREET NW.,
Washington, January 7, 1905.

GENTLEMEN: Replying to your favor of the 27th ultimo, I beg to state that that feature of section 548 of subchapter 5 of chapter 18 of the District Code which you quote is so clear and definite that an official ruling of the superintendent, approved by the Commissioners, has not been deemed necessary. The department has applied it on one occasion successfully to a fire-insurance company.

While the section referred to seems to single out life and fire insurance companies or associations, it is implied, and has been so held by the department, that the feature referring to the impairment of the capital stock of an insurance company or association applies to all kinds of insurance companies, including accident, casualty, miscellaneous, etc.

Yours, very truly,

THOS. E. DRAKE,
Superintendent.

MESSRS. SHEEHY & SHEEHY,
406 Fifth Street NW., Washington, D. C.

Supreme court of the District of Columbia.

UNITED STATES OF AMERICA, *District of Columbia, ss:*

I, John R. Young, clerk of the supreme court of the District of Columbia, hereby certify the foregoing to be true and correct copies of exhibits marked "Schedules A and B" filed with petition for mandamus, in cause No. 47556 at law, wherein United States, ex rel. Royal Benefit Society, a corporation, is petitioner, and Thomas E. Drake, etc., is respondent, as the same remains upon the files and of record in said court.

In testimony whereof I hereunto subscribe my name and affix the seal of said court, at the city of Washington, in said District, this 3d day of April, A. D. 1906.

[SEAL.]

JOHN R. YOUNG, *Clerk.*

Now, gentlemen, there was a company organized to transact the business of industrial life insurance in the District of Columbia under a Federal charter with a total asset of \$540, with which to purchase furniture, stationery, literature, and employ agents, or, in other words, to equip itself to do the business of life insurance. The sum of \$540 was not sufficient to buy stationery and furniture. They had evidently in mind no idea of furnishing protection to their insured.

That and several other incidents similar to that impressed upon the Commissioners, the superintendent of insurance, also those engaged in business who are ready, willing, and able to protect their policy holders, the importance of having some insurance legislation. The absence of some sound legislation will necessarily result fatally to local insurance companies. In other words, we claim that we can not conduct this business properly with security both to the company and the policy holder without some local supervision, and it is agreed both by the Commissioners, the superintendent of insurance, and the majority of the companies, as I say, that are willing to furnish some sort of protection to their insured, that this bill (H. R. 19154) comes as near covering the situation amicably as anything that they have been able to arrive at in the past four years.

The superintendent of insurance, when he first took charge of his office over four years ago, realized that something of this kind was needed. We united with him in an effort to bring about some legislation of this kind, and did succeed in 1904 in getting a bill similar to this through the House, but owing to the shortness of the session and the importance of business, and so forth, it failed to pass the Senate.

An attempt similar to that one failed last year.

Now, it is claimed by the superintendent of insurance, and I believe by the managers of the Ames bill, that we will be amply protected by an amendment added to the Ames bill, page 81, section 56, which reads as follows:

That no life insurance company which issues any contract, the performance of which is contingent upon the payment of assessments made upon survivors, shall do business within the District of Columbia.

That is the original bill. The amendment is as follows:

Except those companies or associations now authorized to do business in said District which shall have and maintain a reserve fund on their assessment policies or certificates equal to the net value of such policies or certificates valued as one-year term policies, as provided in section ten hereof.

Now, gentlemen, I claim that we are exempt only by that amendment from the operations of section 56 and are therefore amenable to the provisions of the rest of the Ames bill, which, to begin with, provides that in order to do a life and accident business only, we shall have \$200,000 invested in securities as provided herein. That, of course, would put the majority of the local companies out of business. In addition to maintaining a legal reserve on our policies on a basis of 4 per cent. I will read section 10 or a part of it. This is the section referred to:

That the Commissioner shall compute yearly the net value on the last day of the preceding year of all outstanding policies in every company authorized to issue life insurance in the District of Columbia, calculated upon the basis of the American experience table of mortality, with interest at not exceeding four per cent per annum on existing policies, and at three and one-half per cent per annum on policies heretofore issued.

There is a further provision in section 10 as follows:

On all policies of insurance other than life he shall charge fifty per centum.

Now, this section provides for the existence of sick and accident companies only, which of course could not be construed as life insurance, because there is no life-insurance feature attached to it. And the company I represent, the American Home Life, does a sick,

accident, and death benefit business all in one policy; also 14 other local and 7 or 8 out-of-town companies.

House bill 19154 provides for this kind of insurance as done by local and others in the District of Columbia. It would be impossible for them to maintain a reserve of 50 per cent of their gross premiums and exist or meet their obligations. So, therefore, it would be impossible to have this class of insurance, or the measures contained in this bill, become a part of the Ames bill under the amendment to section 56 as suggested.

Mr. DRAKE. I think it very well to amend that feature so that there can be no misunderstanding about it.

Mr. CAVE. If you will pardon me I will suggest an amendment. I have talked to Mr. Drake and Mr. Ames on this subject, and they have told me to fight my battles here, and I don't care to be interrupted.

The CHAIRMAN. The gentleman declines to be interrupted. Proceed.

Mr. CAVE. On page 2, section 2 (reading):

"That all insurance companies, now or hereafter incorporated by authority of any general or special law of Congress will be subject to the provisions of this act," the Ames bill.

Therefore, again I say it bears out my statement that we are exempt only from that provision of section 56. That allows us to continue our business on the assessment plan only when we comply with the balance of the Ames bill.

Page 3, section 3 of the Ames bill—

That no insurance company shall make or negotiate within the District of Columbia a contract of insurance—

except as authorized by the provisions of this act, the Ames bill.

That is practically the same thing; showing all along that it was the object and purpose of the framers of the Ames bill to do away with assessment insurance of all kinds, and the amendment does not benefit the companies at all, because, if they are required to put up first the capital of \$200,000, they must raise it on stock to be issued by the company, and, secondly, if they are authorized to do that they would then do away with the assessment feature and put themselves in a class such as the old line companies have shown themselves to be.

Page 20, section 16, is a further evidence of this.

That if it appears to him—

that is, the superintendent of insurance—

that the capital of the domestic insurance company is impaired to the extent of one-fourth or more on the basis fixed in section ten, he shall notify the company that its capital is legally subject to be made good—

(which does not refer to capital stock)

and the company may thereupon make good its capital to the original amount by assessment of its stock.

Again, I say that it is the intent of this bill to do away with assessment insurance.

Shares on which such assessment is not paid within sixty days after demand shall be forfeitable and may be canceled by the vote of the directors and new shares issued to make up the deficiency.

Now, such an association as the Masonic Mutual Relief, of Washington, D. C., that has no capital stock, would be compelled under the provisions of the Ames bill—and it has not been amended, and neither has there been any suggestion made by any former speaker that amendment should be made to that section—that company would be compelled to retire. That is the Masonic Mutual Relief of Washington, D. C., a company in which I happen to hold a policy. That association sells insurance at about 20 per cent less to the insured than any old-line capital stock company, and at the same time maintains the same reserve that is maintained by any old-line New York capital stock company. To be exact, gentlemen, I wish to quote the figures. At the age of 35 the premium is \$23.02 for what is called a whole life policy in Masonic Mutual. The Equitable Life, of New York, charges \$28.11, guaranteeing to the insured no more protection, no more security, than that guaranteed by the Masonic Mutual Relief, of Washington, D. C., which is intended to be prohibited from conducting business under the provisions of the Ames bill. And that \$28.11 is within a few cents of what is charged by other level-premium capital stock companies. I see no reason why a citizen of the District of Columbia should be excluded from the right, or deprived, rather, of the right to purchase insurance of that kind when he is getting absolutely the same protection that is given him by a company that charges him 20 per cent more.

Page 118, section 110, of the Ames bill would also have to be amended if the intention of Mr. Ames and Mr. Drake is to be carried out, namely, allowing these assessment companies such as I represent to continue to do business, provided this amendment allows them to do so, as they claim it does (reading):

SEC. 110. That the following sections of the act to establish a code of law for the District of Columbia, approved March third, nineteen hundred and one, as amended, and so far as inconsistent therewith, are hereby repealed: Section six hundred and forty-one and sections six hundred and forty-five to six hundred and fifty-seven, inclusive.

That repeals every line, every letter of insurance law of this District. Therefore we become, as I say, amenable to the provisions of the Ames bill, and this bill only, with one exception, that we are allowed to continue to issue policies on the assessment plan, provided we comply with all other provisions of the Ames bill, which is to do a sick, accident, and death benefit business, as the company I represent and 14 others are doing in the District of Columbia. But, first, in order to do a sick and accident business we have to have \$200,000 in approved securities; secondly, to do a death-benefit business or life insurance, \$100,000—in the aggregate \$300,000—in order to conduct a sick, accident, and death-benefit business, upon which the liability is very small; but in order to do an old-line level-premium business, upon which the liability is much greater, we would only be required to have \$100,000 to start with. The difference is three times as much for this small class of business.

I will say now, gentlemen, that there has been a great deal said here with regard to the expense of this class of business. The amount or per cent of the gross collections as compared to that returned to the people, which is shown to be about 25 per cent—these companies are young, the expense of procuring new business is great, equally as great in this class of business as it is in old line,

and a further fact why their expense is great is this: It requires practically nothing to embark in business. The agents acquire knowledge of the business by working for a company, and then if they see fit they embark in business for themselves and proceed to twist the policy holders from the old to the new company. When the insurance department was created there were 5 local companies, I believe, doing business. Now, the superintendent says there are 14. There has been a great deal of publicity given this kind of business on account of the conflicting rulings of the insurance department. The superintendent says there are 14. I know of several not known or recognized by his department. There was a company on F street, between Sixth and Seventh, that after doing business there awhile moved away, and the company is now run by an individual agent, and his residence is his office.

There was also a statement made here the other day that the capital stock of these companies runs from \$1,000 to \$5,000. The capital stock of the companies incorporated in the District of Columbia doing or attempting to do insurance business runs from \$1 to \$20,000. The company I represent, the American Home Life, has a capital stock of \$20,000 with between \$40,000 and \$50,000 assets.

So I submit, gentlemen, that in view of the fact that the first insurance code, or attempt at insurance law for this District, was an act of Congress in 1887 that authorized the existence of this kind of insurance. There was one special section in that act that exempted these companies from the operations of any other law. That was also recognized in the code of law for the District of Columbia in January 1, 1902, section 653, which provides for assessment companies such as I represent. H. R. 19154 should receive the approval of your committee and be acted on as an individual measure.

There has also been something said here with regard to the trouble that these companies have had with the superintendent of insurance, and Mr. Curry went so far as to state that these companies—leaving the impression that all of them—had refused to make annual reports. I challenged that statement as being erroneous.

Mr. CURRY. I beg your pardon, I said some of the companies; three of them.

Mr. CAVE. Well, the company I represent did first make the report, as required by Mr. Drake, which was entirely uncalled for, but made it in detail, and not within the meaning of this statute or the authority given him by this statute; but in his opinion only the trouble seems to have come about by Mr. Drake attempting to substitute his opinion in lieu of law. I wish to explain what I mean by that. These companies paid 1½ per cent on what they term their net premium receipts. It is claimed, however, by the best attorneys of Washington, a few of them, at least, that the law did not contemplate taxing the assessment of these companies, and in order to explain that I will read section 653 of the code of law of the District of Columbia.

Sec. 653. Assessment companies. Insurance companies or associations transacting the business of life insurance on the assessment plan, organized under the laws of the District of Columbia, or of any State of the United States, and doing business in said District, shall not be required to comply with the provisions of the next preceding section in regard to its assets; but such assessment companies or associations shall be required, as a condition of license to do business in said District, to file annually in the month of January with said superintendent a sworn statement setting forth that they are paying, and for

the twelve months next preceding have paid, the maximum amount named in their policies or certificates of membership when and as the same become due and payable, and that one assessment upon their members is sufficient to pay the maximum amount for such certificate or policy issued, and such other information as he may require. Such assessment companies or associations shall also furnish said superintendent evidence that they hold an emergency or surplus fund as a guarantee for the payment of future death claims when the same is required by the charter or constitution of the company or association; and any such company or association licensed to do an insurance business refusing or neglecting to furnish such certificate shall have its license to do business in the District of Columbia revoked; but the provisions of this section shall apply only to associations transacting life insurance upon the assessment plan.

Now, gentlemen, the provision providing for the payment of taxes says that the company shall pay $1\frac{1}{2}$ per cent on its net premium receipts. The law sets up quite a distinction between a premium and an assessment. In other words, they are each defined in the law. So long as there is a difference between assessment and premium we contend Mr. Drake's ruling is wrong. But in order to keep peace with the superintendent of insurance we agreed to in some way or other calculate or figure what the net assessment was, and I think the first year we paid $1\frac{1}{2}$ per cent on what we mutually agreed to be the net. That of course encouraged the superintendent to come at us for more. He showed a disposition to be rather exacting and claimed that net meant gross, and thereupon we should pay on the gross assessments, having absolutely no law for it; but the corporation counsel, who ruled in favor of us the year previous, had died, and had been criticised by reason of making that ruling as being a blacksmith, and the man who succeeded him agreed with the superintendent, said that net meant gross, and we must pay it. Like little lambs we did pay it for one year, or the second year. I think I am more responsible for refusing to accept that construction of the law the third year than any other individual. I said our company would not submit to such a ruling, knowing it to be illegal. We therefore tendered Mr. Drake our annual report complying with section 653, in answer to which we received a letter, which I think I can quote.

DEAR SIRS: I have received on such and such a date your annual report complying with section 653 of the code of law for the District of Columbia, for which I thank you.

THOMAS E. DRAKE.
Superintendent of Insurance.

AMERICAN HOME LIFE INSURANCE COMPANY.
Washington, D. C.

Now that, he afterwards found, was a mistake on his part to acknowledge that he had received the report, and secondly, that it complied with the law. He then fooled around for eight or ten months trying to find some place to catch hold of us, and he threatened in an article in a newspaper to arrest the officers of these companies and cited the fine, which would be \$20 a day, giving us ten days from that date in which to comply—not with the law, but with his opinion. Before the ten days expired we mandamusd the superintendent of insurance, and that case is pending in court to-day.

That, I think, explains in detail all desire on the part of this company to evade the law.

Now, gentlemen, as I say, if you attempt to include this kind of insurance in the Ames bill under that one amendment it means death

to most of these companies. But on the other hand, I claim if some measure similar to those contained in H. R. 19154 becomes a law this business can be done with from 30 to 50 per cent less cost to the insured and with equal security to the insured for this reason. The agents of these companies will be prohibited from starting a company of their own as they now can, requiring no capital to do so, and will persuade the policy holders to leave the former company and go with them. Now, that means an additional cost to the company to get other members in their place, also a cost which is greater than the cost to get new members, in an endeavor to save the old members. The class of people we insure are servants, laborers, and children—people that can not get insurance in such companies as the Bankers' Life for this reason. Their minimum age (Bankers' Life) is 21 years; their minimum amount of insurance is \$2,000; the first cost to the insured is \$2 per hundred, or \$20 a thousand, as I understand it; and they do not insure laborers, neither do they insure servants, females, or anything under the age of 21.

Therefore the class of people we insure would be excluded from insurance in that kind of a company—also, in any old-line company—because they do not cater to that class of people. And for two reasons: The people, if they were willing to insure in them could not pay the premiums. There is a little difference in the amount paid back to these people as compared with the amount received between the old-line companies and these companies I am speaking about. In old-line companies a person will pay by check without cost to the company for collection. We have to pay our agents 15 per cent for collecting these premiums, as long as the agent collects them. That, of course, is a cost which the old-line companies do not have to contend with, and accounts for the difference between 25 per cent for the sick and 30 or 35 per cent for the old-line of the gross premiums that are paid back to the people, and for the further reason that these companies are young, are operating under no legal protection, and anyone can embark in business, and there is no protection either to the company or the insured.

Mr. DE ARMOND. Within what limits do you issue policies?

Mr. CAVE. Five hundred dollars is the largest issued by any company that would be affected by the measures of this bill.

Mr. DE ARMOND. I am talking about your business as you have been running it—within what limits have you been issuing policies?

Mr. CAVE. In the District of Columbia.

Mr. DE ARMOND. You do not understand my question. I asked within what limits you have been issuing policies.

Mr. CAVE. In age, do you refer to?

Mr. DE ARMOND. No; in amount.

Mr. CAVE. Five hundred dollars has been the maximum.

Mr. DE ARMOND. What has been the minimum?

Mr. CAVE. About a dollar on a child, a dollar per week sick benefit; it would be well to explain—

Mr. DE ARMOND. About what rate or premiums do you charge?

Mr. CAVE. For an assessment of 25 cents—

Mr. DE ARMOND. What is the smallest assessment?

Mr. CAVE. Five cents.

Mr. DE ARMOND. From 5 cents to what?

Mr. CAVE. About 30, 35, or 40 cents.

Mr. DE ARMOND. A week?

Mr. CAVE. Yes. For a payment of 20 cents the insured is entitled to \$5 per week when sick, \$5 per week when disabled by accident, and \$50 at death. Also some of these companies do issue a straight life policy, of which I have a copy.

Mr. DE ARMOND. Is there any limitation in time as to that? Suppose a person takes out an insurance policy to-day and is injured or taken sick to-night.

Mr. CAVE. He is entitled to one-fourth of the benefit as provided for in his policy. That, too, accounts for the small per cent of the gross premiums having been paid back to these people, because there is not, I dare say, one company that will be affected by this bill that has been in operation three years or more, that has not had a part of its agents leave and start up another company and attempt to destroy, and in many cases succeeded in destroying, the first company's business; and in addition to that a third company has started from the company that branched out from the first company; it is the endless chain. Without legislation of some kind on this subject in five years the business will be destroyed.

Mr. DE ARMOND. A man has a choice between acting as agent and putting up a dollar or so and acting as a company?

Mr. CAVE. Yes; he can be an agent to-day, and a president to-morrow, and a bum the day after to-morrow.

Mr. DE ARMOND. Have you any statement you care to submit showing the amount of business you have been doing; how much paid out and how much taken in every year?

Mr. CAVE. I believe that has been furnished the committee.

Mr. DE ARMOND. You do not represent the same company?

Mr. CAVE. I represent one of the companies that Mr. Davis is attorney for and has given the information you are asking.

Mr. DE ARMOND. I am talking about the business that your company has done—how much you are taking in and how much you are paying out.

Mr. CAVE. The older the company—business that has been in a company a year or more is harder to disturb.

Mr. DE ARMOND. I am not talking about whether it is disturbed or not; what I am asking is whether you have some figures that will show us something about how much you have been taking in each year and how much you have been paying out, and how much you have been paying to yourselves?

Mr. CAVE. Well, if you will confine yourself to one particular question.

Mr. DE ARMOND. I will confine myself to anything. I am asking you whether you have any figures showing how much you have been taking in, how much you have been paying out in benefits, and how much you have been paying to yourselves?

Mr. CAVE. I say that has been answered; about 25 per cent is the average amount paid back to the policy holder.

Mr. DE ARMOND. That is not what I want.

Mr. CAVE. No; I haven't those figures.

Mr. DE ARMOND. If you have any figures I would like to know how many thousand dollars you have had paid in, and how many thousand dollars you have paid out, and how many thousand dollars your officers receive in salaries.

Mr. CAVE. I have not those.

Mr. DE ARMOND. You can not give those figures, then?

Mr. CAVE. There is no salary of any officer that will be affected that I know of that exceeds \$2,000 a year, and then he is giving his entire time and attention to the business.

Mr. DE ARMOND. How many people are actively engaged in the management of your company?

Mr. CAVE. Four officers; one of them is manager.

Mr. DE ARMOND. Four salaried officers?

Mr. CAVE. No; only one of them is salaried, and that is the man that is giving his entire time to the business.

Mr. DE ARMOND. The others get no pay?

Mr. CAVE. Absolutely none, except for attendance as directors.

Mr. DE ARMOND. They get pay for that?

Mr. CAVE. Yes; a very nominal amount.

Mr. DE ARMOND. Where is the stock held?

Mr. CAVE. By these four officers.

Mr. DE ARMOND. In what proportions?

Mr. CAVE. Well, it is divided among the four, not equally.

Mr. DE ARMOND. That is what I was thinking; about how is it divided?

Mr. CAVE. I don't know that it is necessary to state in detail.

Mr. DE ARMOND. No, it is not necessary to state anything. I was asking you, and I should guess that one man held most of the stock, and that the holdings of the other three are nominal——

Mr. CAVE. That is entirely wrong.

Mr. DE ARMOND. That is what I would guess, and you ought to be able to say what is correct.

Mr. CAVE. Because the man that does the work——

Mr. DE ARMOND. I am guessing that in the absence of a statement and your declining to make it. I ask you whether that is not substantially true—that the man who gets the salary is really, to all intents and purposes, the company, and the other men simply nominal holders of stock?

Mr. CAVE. That is not necessarily so.

Mr. DE ARMOND. I am not asking whether it is necessarily so or not, but whether it is not a fact?

Mr. CAVE. Not to my knowledge.

Mr. DE ARMOND. Do you know anything about how much stock each one owns?

Mr. CAVE. I do, indeed.

Mr. DE ARMOND. Which one of these four are you?

Mr. CAVE. I don't know that I would be doing justice to myself to answer the question.

Mr. DE ARMOND. Of course, I don't want you to answer the question if you do not feel that you can do yourself justice; if that is so, you can decline to answer it.

Mr. CAVE. I think that involves a matter that is purely a matter of private affairs of the corporation.

Mr. DE ARMOND. Exactly; of course you do not need to answer it; but I am asking it, and asking it upon the theory that whoever is the managing man of your company is really the company, and the others are practically figureheads. Now, I don't know anything about this; that may be incorrect, and you do know about it.

Mr. CAVE. I submit that assuming your conclusions—your suspicions, rather—are well founded, that if this man is a practical insurance man and giving his entire attention and receiving for his services less than \$2,000 a year, he is entitled to it.

Mr. DE ARMOND. And you decline to answer anything about how the stock is held in your company?

Mr. CAVE. Yes; I do, because I am a stockholder in several companies. I am vice-president of one company operating in South America.

Mr. DE ARMOND. Let me ask you in how many companies of this kind you are a stockholder?

Mr. CAVE. Several.

Mr. DE ARMOND. Several is indefinite. Do you say that you do not know how many you are a stockholder in?

Mr. CAVE. I know, but I don't care for everybody to know my private business.

Mr. DE ARMOND. Are you an active officer in more than one?

Mr. CAVE. I am vice-president in one operating in South America.

Mr. DE ARMOND. I am not asking you about that or about the South American business; I am asking you about this insurance business in the District of Columbia. Are you an active officer in any more than one of these industrial insurance companies in the District of Columbia?

Mr. CAVE. No, sir.

Mr. DE ARMOND. Have you stock in more than one of them?

Mr. CAVE. I said I had.

Mr. DE ARMOND. You said several, I believe.

Mr. CAVE. Yes, sir.

Mr. DE ARMOND. As to that, would you indicate about how much stock you have in any of those, except the one you are here representing?

Mr. CAVE. I would not.

Mr. DE ARMOND. I will ask you whether you have not merely nominal stock—

Mr. CAVE (interrupting). I think I answered that when I said I would not.

Mr. DE ARMOND. Well, I will ask you whether you are not a figurehead stockholder in several other companies, and whether active men from other companies—salaried men—are not figurehead stockholders in return in your company?

Mr. CAVE. I know of no such figureheads, sir.

Mr. DE ARMOND. Then you hold a considerable amount of stock in each one of these other companies?

Mr. CAVE. I did not say so.

Mr. DE ARMOND. What amount of stock—what portion would you say a man ought to own in order to rise above the dignity of the figurehead stockholder?

Mr. CAVE. That is an impractical question.

Mr. DE ARMOND. What I would like to find out, and perhaps the committee would, too, is as to what ones of these companies are real companies, and what ones of the companies are mere snide companies, if any, organized by one man who runs the whole thing and gets all the money, and has associated with him some figurehead stockholders?

Mr. CAVE. I would prefer your getting that information from people conducting snide companies; probably my judgment may not be sufficient.

Mr. DE ARMOND. I am not asking for your judgment; we can get along without that.

Mr. CAVE. That is what it would be——

Mr. DE ARMOND. But asking you for facts. If you will give us the facts we will excuse you from giving your judgment.

Mr. CAVE. There are some companies here doing business, I understand, with practically no assets. We have enemies enough, and I would not want to name them——

Mr. DE ARMOND. No; I am not asking about assets—what I am asking about is this: Whether you know of any companies here that, so far as the substantial ownership of stock is concerned, consists of a salaried man, or men, in the company, with the others merely nominal stockholders.

Mr. CAVE. Leaving out my own company, I could not intelligently answer that question, and with regard to my own company I refuse to answer the question; and so far as snide companies are concerned, you will have to tell or define to me what, in your opinion, constitutes a snide company before I could answer that.

Mr. DE ARMOND. Really, as to that I don't know whether it would be worth while. While you may have difficulty in giving a definition I think probably you understand it.

Mr. CAVE. I do in my opinion; yes.

Mr. DE ARMOND. Yes. Another question. Are you the salaried man of your company?

Mr. CAVE. I am.

Mr. DE ARMOND. But you decline to say whether you are the man that owns substantially all the stock or not?

Mr. CAVE. I do.

Mr. DE ARMOND. You decline to say whether you are practically the whole company, so far as interest and money are concerned?

Mr. CAVE. I say I am not in that respect.

Mr. DE ARMOND. I did not say all, I said substantially; that is what you wish us to be very careful to protect and preserve in the District—a company about the stock of which you refuse to give information, a company concerning the stockholding of which you refuse to say whether you are substantially the sole stockholder and sole beneficiary; and respecting that you wish us to take care of it.

Mr. CAVE. Not in that light.

Mr. DE ARMOND. Put it in your own light.

Mr. CAVE. I do say that I consider that a matter that concerns the private operations of the corporation. I would also consider a man that would disclose that kind of information in a private corporation would be unjust to his charge, unfair to the corporation and to the other members of the corporation.

Mr. DE ARMOND. Now, will you explain to the committee why it would be unfair and unjust——

Mr. CAVE. In my opinion——

Mr. DE ARMOND. Will you explain to the committee why it would be unfair and unjust to indicate to the committee anything about who the stockholders of your corporation are and something about their holdings?

Mr. CAVE. I am giving them now: That I think this committee is endeavoring to get such information as will enable them to prepare legislation both just to the corporation and the insured that is insuring in these corporations, and that your questions for the last fifteen minutes have absolutely nothing to do with bringing that kind of information before this committee.

Mr. DE ARMOND. Then you assume to know what kind of information the committee wishes, and you assume to decide when a question is asked you by a member of this committee whether it shall have the information that that will bring out?

Mr. CAVE. I do, yes.

Mr. DE ARMOND. And yet you want the committee to carefully act to preserve such a company as you have described yours to be?

Mr. CAVE. I have not described my company; I have refused to describe it, that is the difference.

Mr. DE ARMOND. Such a company as you refuse to give any particulars about.

Mr. CAVE. Yes.

Mr. DE ARMOND. Do you refuse because those particulars would be damaging to your company?

Mr. CAVE. I think that statement is not just.

Mr. DE ARMOND. Very well, correct it.

Mr. CAVE (continuing). In view of the fact that I have stated that I consider your questions dealing with a subject that is a matter which belongs simply to the private operations of a corporation of this kind, and since there are no provisions in any bill before this committee that deal with the subject which you are now discussing, I can not see why you should solicit that information from me in the way you are doing it.

Mr. DE ARMOND. Then unless you can see why particular information would be desired by a member of the committee you would decline to give it?

Mr. CAVE. And I would answer further by saying that if you can show me where an answer to your question as I imagine you desire to have it answered would be of any value to this committee upon the subject they are considering, I will answer it.

Mr. DE ARMOND. I don't desire to have it answered any particular way. I do not desire any particular kind of an answer, but I have asked you certain questions and I do not understand any good reason for refusing to answer them. There may be some.

Mr. CAVE. We will assume that back in Missouri you were conducting an insurance company and I would go to your State and ask such a question as you have asked me. I would ask you what the answer would be.

Mr. DE ARMOND. I will answer that if I were conducting a business which I could not afford to disclose, an institution without merit, I would adopt your course; but if I were conducting an institution with honest purposes, and whose methods I had no reason to be ashamed of, and would be glad to have known, I do not see why I should take your course about it.

Mr. CAVE. I only have to say, in reference to that statement, that our opinions are not together on that.

Mr. DE ARMOND. I notice they do not quite coincide. May I ask you how much capital stock your company has?

Mr. CAVE. \$20,000.

Mr. DE ARMOND. Paid up?

Mr. CAVE. Yes.

Mr. DE ARMOND. In what was it paid up?

Mr. CAVE. In money.

Mr. DE ARMOND. When was it paid in?

Mr. CAVE. The larger part in 1903.

Mr. DE ARMOND. When was the company organized?

Mr. CAVE. In the spring of 1893.

Mr. DE ARMOND. This was paid in by the stockholders then?

Mr. CAVE. A little over thirteen years ago.

Mr. DE ARMOND. This was paid in in 1903 by the stockholders?

Mr. CAVE. Yes; the larger portion of it. The capital stock was increased then.

Mr. DE ARMOND. I suppose you would not want to disclose what dividends have been paid?

Mr. CAVE. Not a dollar.

Mr. DE ARMOND. What induced these people, if you know—perhaps that would be disclosing a dangerous secret, too—to put in the main part of this stock in 1903, when for something like ten years it had not paid a dollar in dividends?

Mr. CAVE. That desire that induces all thrifty, intelligent Americans to put their money in institutions that they believe will be of benefit to them and their fellow-countrymen.

Mr. DE ARMOND. After ten years' demonstration that it would not benefit them at all?

Mr. CAVE. That is not their fault, sir; they endeavored to do the best they could, and they succeeded in increasing the assets nearly \$50,000. If they were desirous to have declared dividends, they could have declared dividends of all over and above 75 per cent of that capital stock, which would have been the difference between \$15,000 and very nearly \$50,000.

Mr. DE ARMOND. Who are the officers of that company—unless that is one of those secrets which you do not wish to disclose?

Mr. CAVE. Four citizens of Washington.

Mr. DE ARMOND. I may have asked you whether they were four citizens of Washington; I may have asked you, as I actually did—

Mr. CAVE. You did not ask their names.

Mr. DE ARMOND. Do you say that that is an answer to the question?

Mr. CAVE. Yes.

Mr. DE ARMOND. If I ask you who you are, do you think it is an answer to say you are a citizen of Washington?

Mr. CAVE. I do; you seem to be very technical, and I like to be, too.

Mr. DE ARMOND. You understood me to be trying to get at the geography of the matter and to ascertain where these men lived?

Mr. CAVE. Is it the names you wish to know?

Mr. DE ARMOND. Have you any doubt of it?

Mr. CAVE. I did have.

Mr. DE ARMOND. Yes; it is the names.

Mr. CAVE. James H. Vermillia, president; Charles T. Yoder, secretary; James H. Caton, vice-president, and G. W. Cave, myself, is treasurer and also manager, giving my entire attention to the business.

Mr. DE ARMOND. And the other officers, I believe you said, did not give their attention and time to the business?

Mr. CAVE. They do not, except in a general way as directors.

Mr. DE ARMOND. How often does your directory meet?

Mr. CAVE. Once a month; they are in the office every day or two, all of them, and some of them are in there oftener.

Mr. DE ARMOND. Would it be a disclosure that you would not like to make if you would say how much salary the directors get?

Mr. CAVE. They are paid—it is in the nature of attendance, but it is \$25 per month each as directors.

Mr. DE ARMOND. For attending one meeting?

Mr. CAVE. The directors' meeting; and that includes all they do, whether it is three times a day or four times a day; or, if we have to go before our superintendent, they go without additional compensation.

Mr. DE ARMOND. Each director gets that?

Mr. CAVE. Yes, sir.

Mr. DE ARMOND. That includes yourself?

Mr. CAVE. Yes, sir.

Mr. DE ARMOND. Is that included in your \$2,000?

Mr. CAVE. I never said I was getting \$2,000.

Mr. DE ARMOND. You did not say how much you were getting?

Mr. CAVE. No, sir.

Mr. DE ARMOND. I suppose that would be an embarrassing question?

Mr. CAVE. I don't know that that will furnish any valuable information. If you insist—

Mr. DE ARMOND. No; I do not insist on anything. I will venture to ask how much pay you are getting.

Mr. CAVE. I object to answering the question.

Mr. DE ARMOND. That is all right. Now, will you state why you object?

Mr. CAVE. Because I think it is a matter that concerns the company and myself.

Mr. DE ARMOND. Why did you not object to giving the pay of the directors? That concerns the company and themselves. You exposed the directors and you refuse to expose yourself.

Mr. CAVE. I exposed myself with the directors.

Mr. DE ARMOND. Why did you expose the directors of the company?

Mr. CAVE. Well, I wanted to please you in part.

Mr. DE ARMOND. Oh, yes; but you do not care to enlighten me as to what you receive?

Mr. CAVE. I do not wish to be understood as impertinent.

Mr. DE ARMOND. I do not understand it that way.

Mr. CAVE. I hardly think you do. In other words, I believe we are together on the subject; you are trying to find out, in my opinion, things that are not of interest to you or this committee, and I deem them to be so, and therefore I answer them as I do.

Mr. DE ARMOND. You determine whether a matter I ask about is of interest to me or not?

Mr. CAVE. I say that in my opinion.

Mr. DE ARMOND. It is very kind of you, and I suppose you can determine that better than I can; it is very kind of you to determine what is of interest to me and the committee.

Mr. CAVE. I must have some reasons—

Mr. DE ARMOND. Some people think a bad reason is better than none, but I do not agree with them.

Mr. CAVE. In my opinion it is a good reason.

Mr. BIRDSALL. Have you finished, Judge?

Mr. DE ARMOND. Yes, sir.

Mr. BIRDSALL. Does your company make any report at all to the commissioner?

Mr. CAVE. Yes, sir; they do annually since the department was created.

Mr. BIRDSALL. What does your annual report cover?

Mr. CAVE. We for two years did file the report which Mr. Drake furnished us, which is compiled by the united insurance departments of the various States.

Mr. BIRDSALL. What does your last report furnished show?

Mr. CAVE. It conforms to the requirements of the District insurance law.

Mr. BIRDSALL. I don't know that law; please state it in a general way.

Mr. CAVE. It first requires us to show that one assessment upon our members is sufficient to pay the maximum amount named in the policies, and that we have paid each and every claim that came due against the company, and that the funds on hand are sufficient to meet any and all obligations.

Mr. BIRDSALL. That is what your last annual report shows?

Mr. CAVE. Yes, sir.

Mr. BIRDSALL. Have you any objection to making a statement as to your transactions for the last year, showing the amount collected and paid out for death, sick, and accident benefits?

Mr. CAVE. I don't know just what they are.

Mr. BIRDSALL. Have you any objection to making such a statement, so that it can go into the record?

Mr. CAVE. No; but I believe—

Mr. DAVIS. He wants that in writing.

Mr. CAVE. I understand you now; I am perfectly willing to do that, sir.

Mr. BIRDSALL. I wish you would make such a statement and hand it to the stenographer.

Mr. CAVE. Here are two forms of policies that have been made out. [Handing them to Mr. De Armond.]

Mr. DE ARMOND. That would be rather in the nature of a concession. There are so many things I would like to know that you are not disposed to tell me that I believe I will relieve you of that. You can leave them with the stenographer, though.

Mr. CAVE. If you will give me a good reason—

Mr. DE ARMOND. What would that be worth to you?

Mr. CAVE. In my opinion a good deal.

Mr. DE ARMOND. I tried to make it clear a little while ago that we are not asking you so much for your opinion as for facts. The truth is, you substitute opinions for facts.

Mr. CAVE. I don't think so.

Mr. DE ARMOND. Then you do not substitute anything for them, because you did not give the facts.

The State of Virginia requires companies such as described in H. R. 19154 to deposit with the State treasurer \$10,000 as security to policy holders and as an evidence of good faith on the part of the organizers of a company when embark-

ing in business. The State of Wisconsin, \$25,000, with an annual increase of \$5,000 until \$100,000 is on deposit for the same purpose.

The State of Maryland, \$50,000 deposited with the treasurer for the same purpose. Pennsylvania statutes provide that a company shall have in their possession \$25,000 worth of approved securities for the same purpose. These deposits are for identically the same kind of companies that are dealt with in H. R. 19154; therefore, such being the legislative policy of the States, the wisdom of which seems to have been approved by long experience in insurance affairs, it would seem to be the duty of the Members of Congress to pass similar laws that will furnish similar protection to the citizens of Washington for the further reason that H. R. 19154 has been approved by the superintendent of insurance of the District of Columbia, the Commissioners of the District of Columbia, and by the majority of the insurance companies of the District of Columbia, and it is conceded by everyone, including the Members of Congress who have become familiar with the insurance laws of the District of Columbia, that the existence of the present insurance laws are nothing short of a scandal and are of serious concern to every citizen of Washington, more especially to the poor washerwoman, servant, and laborer who are persuaded to take policies in some of these concerns that have nothing to guarantee the payment of the benefits provided for in their policies. The payment of these benefits are in some cases optional with the officers of these concerns.

Should Congress fail to pass some insurance bill at this session it would encourage the wild-cat schemes to furnish really less protection than they are now furnishing, for the fact that the failure of Congress, after having this matter explained as thoroughly as it has been, to act in the matter would be in a measure an approval of such ambiguous, inadequate insurance laws as now exist in the District of Columbia, and also leave the insurance commissioner in a position where he would be forced to issue license to the many applicants now pending in the department of insurance, regardless of whether they are or are not in possession of securities or assets of any kind to guarantee the performance of their contracts with their insured, and would also invite the formation of companies with every three or four agents that are now engaged in the life-insurance business in the District of Columbia.

Federal supervision, or authority given a corporation under a Federal charter, usually means something, and the public so understand, but I submit that it has little significance when applied to insurance in the District of Columbia, when a company can incorporate as did the Congressional Life Insurance Company of this city, December 6, 1905, with \$1 capital stock, with the authority given it to do any and all kinds of life-insurance business, and there is no provision in the insurance law of the District of Columbia that will prohibit this company from doing the kinds of business authorized to be done by its charter; neither is there any provision that requires them to furnish any protection or guarantee to the insured that their contracts will be met when the liability occurs.

SCHEDULE D.—*Charter of Congressional Life Insurance Company.*

CERTIFICATE OF INCORPORATION.

Know all men by these presents:

That we, the undersigned, a majority of whom are residents of the District of Columbia, desiring to form a company under subchapter 4 of the incorporation laws of the District of Columbia, as provided in the Code of Law of the District of Columbia, enacted by Congress and approved by the President of the United States, do hereby certify:

First. That the corporate name of this company shall be Congressional Life Insurance Company, and the object for which it is formed is to carry on a general life, health, and accident insurance business in the District of Columbia and elsewhere, with general powers to do all things incidental thereto and in furtherance thereof, and in general to do and to perform every lawful act and thing necessary or expedient to be done or performed for the efficient and profitable conducting of said business as authorized by the laws of Congress, and to have and to exercise all the powers conferred by the laws of the District of Columbia upon corporations.

Second. The term of its existence shall be perpetual.

Third. The amount of the capital stock of the company shall be \$1, divided into 100 shares of the par value of 1 cent per share.

Fourth. The concerns of the company for the first year shall be managed by a board of three directors, namely, James H. Meriwether, James E. Evans, and George E. Terry.

Fifth. The operations of the company are to be carried on in the United States of America, and the main office of the company shall be at 1008 F street NW., in the city of Washington, and the resident agent is George E. Terry.

This corporation reserves the right to amend, alter, or change any provision contained in this certificate of incorporation in any manner prescribed by statute, and all rights conferred on stockholders herein are granted subject to this reservation.

In witness whereof we have hereunto affixed our signatures and seals this sixth day of December, A. D. 1905.

JAMES H. MERIWETHER. [SEAL.]

JAMES E. EVANS. [SEAL.]

GEORGE E. TERRY. [SEAL.]

UNITED STATES OF AMERICA,

District of Columbia, to wit:

I, S. A. Terry, a notary public in and for the District aforesaid, do hereby certify that James H. Meriwether, James E. Evans, and George E. Terry, parties to the annexed certificate of incorporation of the Congressional Life Insurance Company, bearing date on the 6th day of December, 1905, personally appeared before me in the District aforesaid, the said James H. Meriwether, James E. Evans, and George E. Terry, being personally known to me to be the persons who made and signed the said certificate, and severally acknowledged the same to be their act and deed for the purposes therein set forth. Witness my hand and seal this 6th day of December, 1905.

[SEAL.]

S. A. TERRY,

Notary Public, D. C.

DISTRICT OF COLUMBIA,
OFFICE OF THE RECORDER OF DEEDS,

December 19, 1905.

This is to certify that the foregoing is a true and verified copy of a certificate of incorporation, and of the whole of such certificate as received for record on the 6th day of December, A. D. 1905, 11.03 a. m.

[SEAL.]

R. W. DUTTON,

Deputy Recorder of Deeds District of Columbia.

Assuming for the purpose of argument that H. R. 19154 is not a model or complete insurance code within itself, it is contended by a great many that this session is so short that we will not have time to draft a model bill. This bill will unquestionably greatly improve the insurance situation in the District of Columbia and furnish ample protection to the policy holders of these companies, and also protection to the company in preventing their agents from starting companies and twisting or robbing the companies of their policy holders for which the agents have been fully paid for procuring.

There is every reason why this bill should pass. It has been approved by the Commissioners, the superintendent of insurance, the corporation counsel, and the majority of the insurance companies themselves, all of whom are familiar with the situation and the conditions as they exist, and are, therefore, more competent to determine what is best under the circumstances. If at some subsequent date it should be found that this bill is inadequate in any or all of its provisions, it can easily be amended; but there is no question but what it deals very thoroughly with the kind of insurance that is sought to be regulated by the measures of this bill, and, therefore, there is no reason why the bill should not become a law at this session of Congress, as there has been a great deal of labor and time given to the preparation of this bill and in the many efforts in the last two and a half years to have Congress pass it.

Mr. Cave submitted the following:

Incorporated under the laws of the United States in the District of Columbia.

No. 64536.

THE AMERICAN HOME LIFE INSURANCE CO.

The American Home Life Insurance Company, of Washington, D. C., hereby insures the life and health of the person herein designated as the insured, and agrees to pay the sick, accident, and death benefit stipulated in the following schedule, subject to the conditions, privileges, and provisions contained herein

and on the back hereof, which are hereby made a part of this contract. Said death benefit shall be payable to the beneficiary named in the application for this insurance or to the executors, administrators, or assigns of the person named as the insured in this policy, unless settlement shall be made under the provisions of article eight on the back hereof, at its home office, within one hour from the date of the surrender of this policy and the receipt book properly receipted, and upon receipt of evidence satisfactory to the company of the fact and cause of death of the said insured while this policy is in full force and effect, less any indebtedness to the company on account of said insurance.

Schedule above referred to.

Name of insured.	Age next birthday.	Weekly benefit.	Death benefit.	Premium.
	Years.			Cents.
John Doe.....	20	\$5.00	\$50.00	20

If the insured shall die within six calendar months from the date hereof, the company will pay only one-fourth of the death benefit named herein. If the insured shall die after six months and within one year from the date hereof, the company will pay only one-half of said death benefit. After one year from its date the policy will be in force for the full amount of said death benefit.

One-fourth only of said weekly sick or accident benefit shall be payable in case of total disability, as described on the back hereof, within twenty weeks from the date hereof, and the full weekly benefit shall be payable according to the conditions on the back hereof after twenty weeks from the date hereof, provided however, that no more than five weekly benefits shall be payable in any period of six months, said six months to be calculated from the date of payment of the first weekly benefit. *Provided, also*, that the payment of one-fourth weekly benefits shall be counted as full weekly benefits in computing the number of weeks to be paid in any six months.

In witness whereof, the American Home Life Insurance Company, of Washington, D. C., has affixed its corporate seal, attested by the signatures of its president and secretary, this 21st day of May, 1906.

[SEAL.]

JAS. H. VERMILYA, *President*.
C. T. YODER, *Secretary*.

CONDITIONS.

1. *Period of grace.*—Should the insured die while the premium on this policy is in arrears for a period not exceeding three weeks (twenty-one days), the company will pay the benefit provided herein, subject to the conditions of the policy.

2. *This insurance is granted* in consideration of the premium hereinbefore stated, which shall be paid to the company, or to its authorized representatives, on or before every Monday during the continuance of this contract, and of any additional sum that may be required.

3. *Misstatement of age.*—Any benefit provided for in this policy may be adjusted for misstatement of age.

4. *Preliminary provision.*—No benefit will be paid on this policy for any disease or injury which the insured contracted, received, or incurred before the date hereof, nor unless on said date the insured was alive and in sound health and the first premium paid to the company.

5. *Suicide.*—Self-destruction by the insured, whether sane or insane at the time, within one year from the date hereof, shall limit the liability of this company to the return of the premiums paid on account of this insurance.

6. *Benefit* will not be paid for sickness caused by childbirth, diseases peculiar to females, or venereal disease in any form; or for sickness or accident resulting directly or indirectly from abortion, or any other criminal act or violation or attempted violation of law, or when engaged in a fight, affray, or riot.

The company shall pay only one-half benefit for disability caused by rheumatism.

7. *Alteration and waivers.*—No persons, except the president, secretary, or assistant secretary of the company can alter this contract or waive any condition, privilege, or provision thereof.

8. *Facility of payment.*—The company may make any payment of the death benefit provided for in this policy to any relative by blood or connection by marriage of the insured, or to any other person appearing to said company to be equitably entitled to the same by reason of having incurred expense in any way on behalf of the insured, for his or her burial, or for any other purpose, and the production by the company of a receipt signed by any or either of said persons, or of other sufficient proof of such payment to any or either of them, shall be conclusive evidence that such benefit has been paid to the person or persons entitled thereto, and that all claims under this policy have been fully satisfied.

9. *Revival of policy.*—If this policy is lapsed for nonpayment of premium, it may be revived, as provided in section 11, provided the premium is not more than one year in arrears.

10. *Policy, when void.*—This policy shall be void if there is in force upon the life of the insured a policy previously issued by this company, unless the policy first issued contains an indorsement, signed by the president or secretary authorizing this policy to be in force at the same time; or if any of the representations upon which this policy is granted are not true; or if the said premium shall not be paid according to the terms hereof. If for any cause this policy be or become void, all premiums paid hereon shall be forfeited to the company, except as provided herein.

11. *Policy canceled for nonpayment.*—Should any premium on this policy be twenty-one days overdue, the insurance is thereby canceled and shall not be reinstated until five weeks after date of payment to the company of all premiums due, provided all premiums accruing during said five weeks have been paid and the company furnished satisfactory evidence of the insurability of the person named herein. It is hereby agreed that all premiums so paid shall be received by the company on account of reinstatement. Should the company decline to reinstate the insured the amount paid on account of said reinstatement will be returned or tendered and this policy remain canceled.

12. *Payments of premiums.*—All premiums are payable at the home office of the company, but may be paid to any authorized representative of the company, but payments to be recognized by the company must be entered at the time of payment in the premium receipt book belonging with this policy. If for any reason the premium is not called for when due by an authorized representative of the company it shall be the duty of the insured, before said premium shall be in arrears three weeks, to bring or send said premium to the home office of the company or to one of its branch offices.

13. *The receipt book* belonging with this policy shall be exhibited to the authorized employees of the company, at any time upon demand, and before any claim for benefit under this policy will be recognized, said receipt book must be surrendered to the company.

14. *Weekly benefit* shall begin only on receipt by the company of the premium receipt book belonging with this policy and a written notice or application for benefit signed by the attending physician, and shall be due only after seven days from the date of receipt of said receipt book and notice or application, provided said physician shall furnish the company a certificate satisfactory to the company; said certificate to be made on a blank furnished by the company, containing questions all of which must be answered in full, showing that the insured had been totally disabled and confined to bed for the said seven days and that said confinement to bed was caused by sickness or accident not exempted herein. If benefit is claimed for an accident, said certificate shall show that the insured was totally disabled for the said seven days. To entitle the insured to further benefit said notice or application and said certificate shall be furnished each and every week as aforesaid. It is further agreed that any officer of the company shall have the right to examine the insured, and if there is no surface indication of sickness or accident, or the insured refuses such examination there shall be no benefit due or payable hereunder.

15. *Limitation.*—No suit on this policy shall be maintainable against the company unless brought after one month and within six months next after the date of claim.

16. *If within the period* of one year from the date hereof the insured shall have any sickness or accident for which benefit would be payable, and a qualified physician in good standing shall certify such sickness or accident to be permanent or probably incurable, and any officer designated by the company approve the same, an amount equal to one-half the death benefit named herein will be payable; and if such sickness or accident should occur after one year from said date the full amount of said death benefit will be payable, and in

either event, upon such payment or the tender thereof, this policy shall cease and be surrendered to the company.

17. *Service in war.*—In event of sickness, accident, or death of the insured while engaged in, or in consequence of having been engaged in military or naval service in time of war, without the written consent of the company, signed by the president or secretary, the sum payable under this policy shall not exceed the amount of premiums paid hereon.

18. *Incontestability.*—This policy is incontestable from date of issue for the amount due, provided all premiums have been duly paid.

Incorporated under the laws of the United States in the District of Columbia.

No. 64538.

THE AMERICAN HOME LIFE INSURANCE CO.

The American Home Life Insurance Company, of Washington, D. C., hereby insures the life of the person herein designated as the insured, and agrees to pay the sum stipulated in the following schedule subject to the conditions, privileges, and provisions contained on the back hereof, which are hereby made a part of this contract. Said benefit shall be payable to the beneficiary named in the application for this insurance or to the executors, administrators, or assigns of the person named as the insured in this policy, unless settlement shall be made under the provisions of article seven on the back hereof, at its home office, within one hour from the date of the surrender of this policy and the receipt book properly receipted, and upon receipt of evidence satisfactory to the company of the fact and cause of death of the said insured while this policy is in full force and effect, less any indebtedness to the company on account of said insurance.

Schedule above referred to.

Name of insured.	Age next birthday.	Benefit.	Premium.
John Doe	20 years ..	\$348.00	20 cents.

If the insured shall die within six calendar months from the date hereof, the company will pay only one-fourth of this sum. If the insured shall die after six months and within one year from the date hereof, the company will pay only one-half of this sum. After one year from this date the policy will be in force for the full amount.

In witness whereof the American Home Life Insurance Company, of Washington, D. C., has affixed its corporate seal, attested by the signatures of its president and secretary, this 21st day of May, 1906.

[SEAL.]

JAS. H. VERMILYA, *President.*
C. T. YODER, *Secretary.*

CONDITIONS.

1. *Period of grace.*—Should the insured die while the premium on this policy is in arrears for a period not exceeding four weeks (twenty-eight days), the company will pay the benefit provided herein, subject to the conditions of the policy.

2. *This insurance is granted* in consideration of the premium hereinbefore stated, which shall be paid to the company, or to its authorized representatives, on or before every Monday during the continuance of this contract, and of any additional sum that may be required.

3. *Misstatement of age.*—The benefit provided in this policy may be adjusted for misstatement of age.

4. *Preliminary provision.*—No benefit will be paid on this policy in case of the death of the insured before the date hereof, nor unless on said date the insured was alive and in sound health and the first premium paid to the company.

5. *Suicide.*—Self-destruction by the insured, whether sane or insane at the time, within one year from the date hereof, shall limit the liability of this company to the return of the premiums paid on account of this insurance.

6. *Alteration and waivers.*—No persons, except the president, secretary, or assistant secretary of the company can alter this contract or waive any condition, privilege, or provision thereof.

7. *Facility of payment.*—The company may make any payment provided for in this policy to any relative by blood or connection by marriage of the insured, or to any other person appearing to said company to be equitably entitled to the same by reason of having incurred expense in any way on behalf of the insured, for his or her burial or for any other purpose, and the production by the company of a receipt signed by any or either of said persons or of other sufficient proof of such payment to any or either of them shall be conclusive evidence that such benefit has been paid to the person or persons entitled thereto, and that all claims under this policy have been fully satisfied.

8. *Revival of policy.*—If this policy is lapsed for nonpayment of premium, it will be revived within one year from the date to which premiums have been paid, upon payment of all arrears, provided the company is furnished satisfactory evidence of the insurability of the person named herein.

9. *Policy, when void.*—This policy shall be void if there is in force upon the life of the insured a policy previously issued by this company, unless the policy first issued contains an endorsement, signed by the president or secretary authorizing this policy to be in force at the same time; or if any of the representations upon which this policy is granted are not true; or if the said premium shall not be paid according to the terms hereof. If for any cause this policy be or become void, all premiums paid hereon shall be forfeited to the company except as provided herein.

10. *Payments of premiums.*—All premiums are payable at the home office of the company, but may be paid to any authorized representative of the company, but payments to be recognized by the company must be entered at the time of payment in the premium receipt book belonging with this policy. If for any reason the premium is not called for when due, by an authorized representative of the company, it shall be the duty of the policy holder, before said premium shall be in arrears four weeks, to bring or send said premium to the home office of the company or to one of its branch offices.

11. *Limitation.*—No suit on this policy shall be maintainable against the company unless brought after one month and within six months next after the date of death of the insured.

Special privilege.

12. *Service in war.*—In event of death of the insured while engaged in or in consequence of having been engaged in military or naval service in time of war, without the written consent of the company, signed by the President or Secretary, the sum payable under this policy shall not exceed the amount of premiums paid hereon.

13. *Incontestability.*—This policy is incontestable from date of issue for the amount due, provided all premiums have been duly paid.

This policy, if not satisfactory to the insured, may be surrendered within ten days after its date at the home office and the premiums paid hereon will be returned to the insured.

The CHAIRMAN. Mr. Curry desires a few minutes to make an explanation. I will say, Mr. Curry, that before recess you spoke something about having some tables there, or that you would have some?

Mr. CURRY. Yes, sir.

The CHAIRMAN. If you will hand them to the reporter, we will incorporate them in your remarks.

Mr. Curry submitted the following:

BUSINESS OF 1903.

	Collected from members.	Paid back to members.	Paid for expenses.	Percent-age of premiums paid to members.	Percent-age of premiums used for expenses.
American Home.....	\$27,073	\$3,132	\$26,318	11½	88½
Capital City.....	27,052	10,866	16,186	40	60
Peoples' Mutual.....	14,804	8,231	11,118	23	77
Provident Relief.....	64,736	14,740	46,902	22½	77½
Loyal Life.....	9,065	1,542	8,198	17	83
Union.....	12,404	2,972	8,581	24	76

Mr. CURRY. Mr. Chairman, I want to reply briefly to the reasons Mr. Cave gave for not furnishing a report and paying a tax and some criticism he made on the department's construction of the law. He says that 653 exempts them from the provisions of 652.

Mr. BIRDSALL. Do you think that is material? As I understand it, it is a matter between the companies and the departments and has been submitted to the court. I don't suppose the committee wants to pass on it one way or the other.

Mr. CURRY. I do not think it would have any bearing on your recommendation, and so I will let that pass.

That is all I desire to say at this time.

STATEMENT OF MR. CHARLES A. HARTMAN, REPRESENTING THE UNION INSURANCE COMPANY OF WASHINGTON, D. C.

Mr. HARTMAN. Mr. Chairman and gentlemen of the committee, I represent the Union Insurance Company, and all I desire to say in reference to that company is that I was requested to compile a statement of its business for the last four years. That has been furnished to the department of insurance, and I submit it. It can be verified.

(The statement submitted follows.)

Statement of business of the Union Insurance Company of Washington, D. C.

	Income.	Death claims paid.	Sick claims paid.	Per cent.	Men employed.	Officers' salaries.	Agents' salaries.
1902.....	\$6,254.36	\$156.25	\$1,080.25	20	8	\$3,748.00	\$2,954.90
1903.....	12,404.48	220.00	2,678.24	23	10	2,486.00	4,847.74
1904.....	23,202.10	834.43	5,388.92	27	16	6,717.50	8,253.58
1905.....	30,212.74	1,876.25	6,978.01	28	22	6,821.50	13,407.46

POLICY EXHIBIT.

	Policies written.	Insurance written.	Policies lapsed.	Insurance ceased to be in force.	Total policies in force at end of year.	Total amount of insurance in force.
1902.....	4,061	\$154,271.00	2,951	\$109,959.50	1,648	\$63,401.50
1903.....	4,843	183,607.50	3,867	144,221.50	2,624	102,886.50
1904.....	8,188	262,016.00	6,206	217,510.50	4,606	147,892.00
1905.....	7,466	303,775.50	6,314	252,567.50	5,938	196,600.00

Number of people who have received benefits, 2,406.

Mr. HARTMAN (continuing). These companies represent about 60,000 policy holders, and we were organized in 1901, and gave our first full year's report in 1902, because we were only in business about six months in 1901. I give it there in full, showing exactly the nature of our business and the nature of carrying it on. Our average premium collected from each policy holder is about 17 cents; the amount of insurance that that will purchase is \$43. That will conform very closely to our policies outstanding now—about \$43 is the liability on each policy in force issued by this company. That means a corresponding liability of \$4.30 sick benefit. As Mr. Brosnan said a while ago, he has been in business sixteen years. I have been in the business twenty-five years, and I can say that a person who applies for sick benefit will receive on an average three weeks for each individual case. Our company has paid out to 2,406 persons benefits since its organization. That is what we have paid. Now, taking it on that basis, of three weeks paid to each person, it means something like 7,000 claims that have been paid by the company since 1902.

I think that gives you about as clear an idea as I can convey of the nature of the business we do. We send our agents from house to house, and the cost, as these gentlemen have been telling you, is very great, simply because of the necessity of paying commissions to agents to collect the premium; paying commissions is one method, and other companies pay a small weekly salary, and then a commission of 15 per cent on the dollar for collecting the money at the homes of these people. Owing to the fact that we have had no protection in the District, and the competition having been very sharp among the local companies here for this business—I will not say particularly among the sick benefit companies that are doing business here, but the industrial straight life companies have sadly persecuted our business, and to a certain extent we insure a party this week and the following week we have lost him; the efforts of the agent have absolutely gone for nothing. Of course, it costs money to upset the efforts of others to take our insured away from us, and we have to contend with the fact that almost any time Congress may see fit to enact a law which will close these companies out of business, which of course makes it uncertain for persons to take a policy. Agents have to combat that from time to time, which causes an immense cost in getting business, and makes the cost of our business seem abnormally great.

Now, I will explain some features of this (referring to paper already filed and included in this statement). In 1902 we issued 4,061 policies. In the same year 2,951 policies lapsed, showing you the large proportion of lapses which this business has. That same year we paid 20 per cent back to the policy holders. In 1903 we paid 23 per cent back to the policy holders. In 1904 we paid 27 per cent back to the policy holders. In 1905 we paid within a fraction of 28 per cent. We try to be as liberal as possible. We formerly had a clause in our policy for sick business, stating that we would pay only half benefits for four diseases—heart disease, consumption, rheumatism, and paralysis. We now pay full benefits for those.

We have an inspection, but we never have a medical examination, because our risks are small, being only \$43 on each person, and if we attempted to have a medical examination on each person it would

take away \$100 to \$75 at the lowest to comply with that, because they charge 50 cents for each examination. So this examination is made by some one employed on a salary and he uses his judgment as to whether the risk is proper or not. In order not to give him too much latitude we ask a very few questions. We simply want his judgment as to the general personal appearance of the applicant, as to whether he should be admitted or not. I mention these few facts because you see how difficult it is to run this with the class of business we are dealing in and the uncertainty of collecting these premiums, even after the members have been placed on our books.

Mr. BIRDSALL. According to the figures there is quite an abnormal increase in the salaries of agents in 1904 and 1905—from \$8,000 to \$13,000.

Mr. HARTMAN. I am coming to that in a moment. Now, going along this line, there being no protection, as I said a few moments ago, to these companies in the District of Columbia, any agent or set of agents can go out and prevent us from accomplishing the act which we have set out to do. In 1905 some of our agents left us in a body; they organized another company and immediately proceeded to do what you have had an explanation of, to try to secure insurance from the people they had secured for the company and which the company had paid them for. They succeeded to a large extent. The company had to try to break that up, to try to retain as much of that insurance as possible, and to recover what was possible to recover, and that was expensive. Not that we denied the right that they had to go in for themselves, but they went right out on our own business, the business we had; they were familiar with that and, of course, they had advantages in getting that business for themselves. So, consequently, the company was put to great expense to try to save what it had already acquired. We did not alone save that business, but we got more of it; we made an increase of \$7,000 in our income over the preceding year.

Now, I want to impress on the committee here, if possible, the small death rate which we pay—and I drew an illustration, which, if the committee will allow me, I will read. The first year we only paid \$156.25 death benefit; but we paid \$1,080.25 accident and sick benefits. The second year we paid \$220 death benefits; we paid \$2,678.24 sick claims. The third year we paid death claims \$834.43, and we paid sick claims \$5,388.92. The fourth year we paid \$1,376.25 death claims and \$6,973.01 sick claims.

This money was distributed among a vast number of people, and I think I can say without fear of contradiction, that if it had not been for this form of insurance these sick benefits, which were paid, a great many of those people would have been a charge on the community or would have had to go to the associated charities for help. I speak advisedly, because I am an active worker in the field. Most of the time I am out among the people that we have insured.

Right here I wish to state the reasons why I have gone into these figures. I would like to give a complete outline of the business: The number of men we employed in 1902 was 8; in 1903 we employed 10; in 1904 we employed 16 men, and in 1905 we employed 22, showing the gradual increase that we have been compelled to make in our agency force.

I have here a complete statement of our officers' salaries and agents' salaries. In our company we have four officers actively in the field the same as myself, who devote their entire time to the transaction of this business and have no side issue whatever. Then we have a legal director, who also receives a salary. That practically covers the salaried men of the officers of this company.

In conclusion, my object in bringing this to you was through the request of Mr. Parker, and I desire to state that if any legislation is given these companies on the lines laid down in the bill 19154 that that would amply protect these companies, for at no time are we really called upon for any great amount in death benefits. Our liability is apparently always on sick benefits and not on the death-benefit feature, and I think \$10,000 is ample—and, as I have said, I have had twenty-five years' experience in this business—to cover any loss that may occur under this form of insurance. My object in giving you this definite statement as to what we do and how we do it is to bring about, if possible, the enactment of that measure. I thank you, gentlemen, for your attention.

Mr. DE ARMOND. I notice in your certificate here there is a provision that any statement made in this application—made by the person who gets it or the agent—which is incorrect, and so on, shall operate to forfeit the policy.

Mr. HARTMAN. Now, I want to explain that. Every company of course has its own method of doing business. Our company has never—I can honestly say this—has never fallen back on that provision, except to return back in full the premiums paid, in any case that has come into the company through misrepresentation. I can give you an illustration of that. A man or woman applies for membership. We had a very ugly case here about two years ago. A lady applied for membership. She had a bad ulcer just above the knee. Now, it is not within the province of these gentlemen who go around to examine the applicant to examine a woman to the extent of determining as to any ulcer she might have on her leg. She was admitted. When she applied for sick benefit the company immediately lifted her policy and returned to her the full amount of those premiums.

Mr. DE ARMOND. The part I am particularly calling attention to is this: In these contracts there is a clause to the effect that any misrepresentation made by the agent, who is your agent, shall forfeit the policy.

Mr. HARTMAN. You want an answer on that?

Mr. DE ARMOND. No; I merely call your attention to it; it seems to me that that is out of the line of insurance.

Mr. HARTMAN. The agent sometimes in his desire to get business, I have no doubt, distorts the statement of the person who wants insurance.

Mr. BIRDSALL. Does not the District of Columbia Code provide for making the application a part of the policy?

Mr. HARTMAN. I think not.

Mr. DRAKE. Not industrial assessment companies.

Mr. HARTMAN. We have done it voluntarily—

Mr. DE ARMOND. What I am talking about is the clause which makes the policy forfeited on account of any misstatement of the agent.

Mr. HARTMAN. We have never exercised that.

Mr. DE ARMOND. But it is in all these applications and in all these contracts, not only that if the person who takes out the insurance makes a misstatement it shall operate to forfeit the policy; but if the agent makes any misstatement it will operate the same way—make the policy void.

Mr. DAVIS. Let us grant that should go out; we do not ask to have that clause.

Mr. DE ARMOND. The thing we are granting is that it is in.

Mr. HARTMAN. We have never exercised it in any shape, except in such a case as I mentioned.

Mr. DE ARMOND. That is another case; of course that was properly voided.

Mr. HARTMAN. The agent in every case, I believe, endeavors to ascertain the truth, and the man who inspects the business endeavors to ascertain the truthfulness of the application. The application is turned in and we go out and see the person at his home and we ask him if that statement is correct—whether he is in good health—and he says yes; he is in good health. Now, then, when we find two or three months later that a deception has been practiced upon us, we return the premiums paid in and cancel the policy.

Mr. BROSNAN. That is always the practice.

Mr. HARTMAN. And Mr. Drake can confirm the statement that we have been exempted from taxes on that feature; that we have never paid taxes on premiums that we have returned.

Mr. DRAKE. Yes, sir; that is true; you have not paid taxes on returned premiums.

Mr. HARTMAN. I thank you very much, Mr. Chairman and gentlemen.

STATEMENT OF MR. DRAKE, SUPERINTENDENT OF INSURANCE.

I have been of the opinion ever since I read the original Ames bill, which excluded this class of companies from going on with their business, that they should be recognized, and I so suggested it to him and also the committee at Chicago, but I did not succeed in getting any of them to consider it. I have been approached by a very great number, not only of the members of these companies but others, to make suggestions in regard to the bill that was proposed and approved by the committee at Chicago, of which I was a member. I declined to do it, suggesting that if the bill were not in accordance with their ideas the proper place to present their ideas would be before this committee. And I repeat that I think they are entitled to consideration. As I said at the very beginning of this conference, I am in favor of protecting those companies that Congress is responsible for. There are 14 here operating under charters of the District of Columbia. But I do not favor the organization of any more.

Mr. STERLING (in the chair). Now, would you limit that strictly to industrial insurance?

Mr. DRAKE. To all kinds of assessment insurance—

Mr. STERLING. Fraternal insurance?

Mr. DRAKE. No; I was going to say other than fraternal, and I want to make a distinction. Mr. Cave fell into error in referring to the Masonic Mutual Relief Association. That association holds its

charter by a special act of Congress, and it is purely a fraternal company, with the right, authorized by recent amendment to its charter, to write old line life insurance.

In explanation of the position that these companies have taken in regard to the net premium, that was the most difficult matter to determine at the time the department was open. The words "net premium" in fire insurance mean reinsurance and returned premiums; also those that are prorated. The term "net premium," as determined at the hearing before the full Board of Commissioners in December, 1902, means, in life insurance, gross premiums less the dividends that they return to policy holders. The department immediately after the hearing ruled that all companies that paid no dividends on their premiums to policy holders should treat their gross premiums as net, and upon that basis these industrial assessment companies paid taxes for the first two years. They remonstrated against it and to such extent that a hearing was had before Commissioner Macfarland, who ordered a further opinion from the corporation counsel, and that opinion was that there should be no exemption.

I had acted before upon the basis of treating life insurance premiums as net in the Ohio department, where I came from, taking the initial cost in such cases of the premium from the gross premium, and the residue was taxed. They were satisfied with that the first two years, but subsequently they became dissatisfied and insisted upon a further hearing, which was given them before Mr. Macfarland, the president of the Board of Commissioners, who asked for a legal opinion, and the opinion given by the former corporation counsel was overruled and they were required to pay their taxes upon the basis of the gross premium, which, according to the interpretation, meant net in their line. All of them paid taxes on that basis until last year, and including this year, there are several that have not paid either taxes or license fees.

Mr. STERLING. Does the law as it now is permit the organization of fraternal insurance companies?

Mr. DRAKE. Yes; there is a special law, the best law we have, because it is clear and specific.

Mr. STERLING. Are some companies organized and doing business under it?

Mr. DRAKE. Yes, sir; several; they are provided for, distinctly. If our statutes were all as clear as subchapter 12 of chapter 18 of the Code of Law for the District of Columbia, I would have had no trouble to speak of in administering the law. That was originally enacted, I believe, in 1879—four or five years before the department was established, and when the code was established that was merged into it, with the proviso that it should stand as originally enacted, with a few amendments.

The bill that the department has recommended to your honorable committee for the purpose of regulating industrial assessment life insurance, especially in the District, and which is filed in connection with the records of this meeting, was prepared with great care by the department, with the assistance of the corporation counsel, and we hope you will find it consistent to recommend its passage just as it is.

As I said before, the incorporation law that was enacted for the

District May 5, 1870, made no provision for assessment life insurance of any kind; therefore until early in 1887 companies of this kind that were incorporated in the District received their charters direct from Congress under special acts.

On January 26, 1887, Congress passed a law regulating the business of legal reserve and assessment life insurance in the District. In the enactment of the District Code, however, which took effect January 1, 1902, the law of 1887 was repealed, and, in my opinion, the situation assumed the same attitude thereafter that it did before the law referred to was enacted; therefore companies of this kind, I maintained, could not incorporate in the District after December 31, 1901. I so ruled and maintained this position, refusing in one instance to license a company that had secured its charter after the insurance department was established, and it yielded to the ruling.

About two years ago, however, a legal opinion was urgently asked for on the subject by several prospective companies and their requests were complied with. A legal opinion was procured and approved by the Commissioners to the effect that such associations could organize in the District with or without capital stock. The doors were then thrown open and new companies of this kind again began to organize here. Last year this opinion was overruled in part by the Department of Justice, to which a domestic company (chartered outside of the District) appealed direct because the recorder refused to record its articles of incorporation, and that tribunal decided that an assessment association without capital stock could not incorporate here. I feel quite sure, as I have all along, if a test case were made of insurance assessment associations that have been organized in the District since January 1, 1902, on the capital stock basis they would share the same fate at the hands of the court. There is no more law for the one than there is for the other; besides the capital stock system, under which the business of insurance is conducted, is altogether different from that of the assessment system. The two systems are therefore incongruous and at variance with each other; they can not be made to blend or harmonize without special legislation, and one of the objects of the department in preparing the proposed bill is to legalize, as well as to regulate, assessment associations that have been organized in the District since January 1, 1902.

These associations carry no reserve, and, with but few exceptions, they have no assets to speak of, except their capital stock, which in one case is \$900, that being the minimum, and in another \$20,000, which is the maximum amount. There is nothing to prevent these associations from disbanding at any time, distributing their capital and assets among the stockholders, and leaving the policy holders without insurance, or security either, of any kind. The situation, therefore, is deplorable and something should be done during the present session of Congress to protect the poor and ignorant patrons of these institutions, the most of whom are negroes.

After the original draft of the bill was submitted to the Commissioners—I mean the one for this year—these fourteen associations were requested to file suggestions to be considered in connection with the proposed bill. This was done, and such of those suggestions as were deemed advisable to adopt were embodied in the bill now under your consideration.

Annually for the past three years we have presented a bill to Congress to regulate this kind of insurance, but we have not met with any success in the way of enactment.

The companies that have been organized since the insurance department was established have all been forewarned of the intention of the Commissioners and the department to have laws enacted at the earliest date possible to better protect this class of policy holders: therefore, they have no just grounds of complaint to make along this line.

The claim by some of the companies that the proposed bill would work a hardship on the policy holders of any company that could not comply with the requirement to deposit \$10,000 in securities is not well founded. Even if it should occur that some of these companies could not make the deposit and were compelled to suspend on that account, the only possible disadvantage to the members would lie in their being compelled to join another company and be out of benefits for a few weeks. This disadvantage, if it should occur, would be trifling as compared with the advantage they would derive from the proposed legislation, which would confer an everlasting benefit on the membership of all the companies and the community at large.

As stated by Mr. Curry, examiner of the department, under present conditions it is notorious that these companies can be incorporated and licensed with practically no assets and no security for policy holders, and those that were incorporated here last year have no financial backing save their capital of \$1,000 each, which they voluntarily paid in. On account of the extreme laxity of the law governing this kind of insurance the number of these companies incorporated in the District is disproportionately large, there being only 4 in the State of Maryland and 2 in the State of Pennsylvania, as shown by the official reports of these States for 1904—one of which has since failed—while there are 14 of them incorporated and licensed under our laws. The rush to incorporate these companies in the District of Columbia is due to the fact that solicitors of existing companies can organize with a trifling amount of cash and immediately begin insuring the lives and health of the people here. Besides the lack of financial security of the companies so organized, the incorporators depend largely on carrying with them to the newly organized companies the members of the old companies for which they have worked. This works a great disadvantage to the insured, who are thereby kept "out of benefits" for a certain period every time such a change of membership is effected. This manner of constantly inducing the members to leave one company to join another is a comparatively easy matter, because the great majority of them are people of little or no education and what knowledge they have of the company is usually derived from their contact with the solicitors and collectors who call upon them weekly and not with the officers of the companies.

The objectors to this bill point out only two States which they claim require less financial backing for these companies than is provided in the proposed legislation here. These States are Maryland and Pennsylvania. Maryland has only 4 such companies incorporated under her laws, and the report of the insurance commissioner of that State for 1904 shows that they had admitted assets ranging from \$54,479.17 to \$846,959.36.

In 1902 the Maryland legislature passed an act to the effect that companies of this class under consideration here, which had reported to the Maryland insurance department for the year 1897, should deposit \$500 per year, beginning with the year 1893, until they had deposited \$10,000. The act referred to required all subsequent companies to deposit \$50,000.

The Pennsylvania legislature passed an act in 1903 providing that assessment companies issuing policies for no greater amounts than \$250 may organize when they have applications from at least 500 persons, amounting to not less than \$50,000, upon which applications at least one-twelfth of the annual premiums have been paid, provided that no such company shall be authorized to do the business of insurance until it shall have deposited with the insurance commissioner the sum of \$5,000 in cash or approved securities. Here nothing is required but the capital stock, which the department holds must be paid up and kept intact, but the companies can make the amount anything they desire—it seems from the charter of the Congressional Life Insurance Company, which I refused a license—from \$1 up.

A number of States in which life insurance on the assessment plan is permitted require deposits very much greater than \$10,000, and Massachusetts, which is conceded by many to have the best insurance laws, has not allowed the incorporation of assessment companies since 1899. New York has recently repealed its assessment life insurance laws and the new law provides further that an assessment life association applying after May 31, 1905, for an initial permit to do business in that State shall not be granted.

During 1903—that being the last year we have complete returns of these associations, because several have since refused to submit statements of their transactions and financial conditions—the assessment companies incorporated under the District law collected \$168,065.42 and paid back to policy holders \$40,155.73, or less than 25 per cent of the amount collected. In view of the situation I think the proposed new requirements are not too severe, and I trust you will recommend the revised bill to Congress without further change.

This, gentlemen of the committee, is all I have to say in support of this bill.

STATEMENT OF HON. HENRY E. DAVIS.

Mr. DAVIS. Mr. Chairman, will the committee indulge me a word in respect to an aspect or two of this matter that has developed to-day?

In the first place, let us dismiss all talk about this conflict between the superintendent of insurance and these companies now pending in the courts. The action was taken by these companies on my advice; I have been their counsel for some years. In the opinion which I gave them, and to which I adhere, they were not liable to the demands made upon them by the department. The matter was submitted, very fully argued before Justice Stafford, than whom we have no broader mind or better lawyer on the bench. He held it under advisement for weeks, sent for counsel, and in his consultation room he informed us that he had read and reread the insurance laws of the District and had decided not to render an opinion, but

pass it on to the court of appeals. That amounts to nothing, and ought not to cut any figure in this discussion.

Furthermore, in reference to the question of who are the stockholders of these various companies, it seems to me a foregone conclusion, as I pointed out the other day, that they have to have stockholders to start, and who they are, with all respect to Judge De Armond, can cut no figure in the question we are considering. In the beginning the first insurer was an individual, and the men who came to bear his share of the burden were called underwriters, because they took a part of the responsibility off his shoulders. Insurance began with individuals undertaking to insure and the insurance company is nothing in the world but the mere development of one form of corporations in the general development of that class of industrial concerns.

So it makes no difference whether an insurance company is composed of 50 stockholders, of whom 49 have but one share and the fiftieth has the rest. The question we are here considering is the adoption of some legislation that is going to protect the men that the company is undertaking to insure, and this bill has been framed with that object in view, not for the purpose of enabling the companies to make money or to pay high salaries to their officials, but to protect the insured, and it has all been thrashed out, the matter has been before the department of insurance, the Commissioners of the District of Columbia, the Committee on the District of Columbia of the House of Representatives, and is now here, with the result that this bill 19154 represents the best judgment of all who have given attention to this matter for the past several years, and in the judgment of those who have given it this careful attention it is the most, if not the only, practical solution of the question of assessment companies, the only alternative being to prohibit them altogether.

Now, I do not suppose it is open to discussion that they are to continue, because, for the reasons stated here, this is an absolutely necessary form of insurance—unless it is the wisdom of Congress that the classes who are insured in these companies and who can not be insured in any others are not to be insured at all; if that is the wisdom of Congress then let there be no act except an act forbidding insurance companies of this sort; but on the assumption that they are to be continued this bill has been prepared. It is certainly amply protective.

Reference has been made again to-day to the \$10,000 deposit feature, which we think ought to be in this bill even if there is no other provision in it. That is the requirement, that there shall be this deposit of \$10,000 as a guaranty for the performance of these contracts with the insured, and if you do not have it what Mr. Hartman has narrated will be occurring every day; these agents will be setting up little companies and dividing this insurance among a great many irresponsible people, whereas, if this law is passed it will be held in the hands of a few responsible corporations with ample protection to the insured.

With reference to the cost of this class of insurance and the relative percentage of payments back to the policy holders, what Judge Sterling read this morning is in line with everyone's knowledge who has acquaintance with this subject, regard being had to the cost

of this kind of insurance. These companies pay back a larger percentage to the insured than the old-line companies do, and in the old-line companies every lapse is a profit to the companies. In these companies, as Mr. Hartman has shown you, if the lapse happens before the agent has selected enough to pay him for his commission in getting the risk the lapse is a loss to the company, and that is a feature of this kind of insurance in addition to the other features that have been pointed out—of the necessity of 52 weekly visitations every year for the purpose of collecting the premiums, which in the case of the old-line companies are sent to the office through the medium of a check and a postage stamp.

So, then, in analyzing this thing it will be found that these companies, in the first place, insure a class of people that can not be reached by any other class of insurance; and, in the second place, regard being had to the conditions under which they work, they return to the insured a larger percentage of what they take in than do the old-line companies. We are here now asking to be made responsible, to be put upon a footing so that the community will accept us as accredited insurance agencies and concerns and upon a footing such that we will stand before the community with the pledge of security to the insured which can not be taken away and which will be a guaranty of the performance of every undertaking that we enter into.

Finally, as to this form of policy, as I said the other day I say now, the elasticity of this bill (H. R. 19154) is a great argument in its favor, because the policies can be adapted to the experience, as I said, and it is perfectly safe to trust the form of that policy with the department of insurance under the conditions of this act; that is, let it be prescribed in the manner fixed by the superintendent, subject to the review of the Commissioners of the District of Columbia.

And in reference to these statements that are in some of these policies, let it be granted that some are not commendable; let them go out. The superintendent will see to that. But it is not such a monstrous proposition that the insured shall warrant what the solicitor says, because in a great many policies of insurance there was for years this clause:

For purposes of this application the solicitor presenting the same shall be deemed the agent and representative of the applicant.

Mr. DE ARMOND. Do you think that is a proper thing to have in the policy?

Mr. DAVIS. I do not; I am only saying that it is not an unusual thing. We have been getting away from it, but the books are filled with cases to-day in which the court has been put to its trumps, if I may use that expression in this presence, to determine whether under a given set of circumstances a man presenting the policy was the company's agent or the agent of the applicant at the moment.

Mr. DE ARMOND. Do you not think as a matter of fact every one of those was a fraud on the insured?

Mr. DAVIS. Let us grant it; who did it?

Mr. DE ARMOND. The insurance company.

Mr. DAVIS. On the contrary, pardon me, the solicitors are a class in themselves; they are in the business by themselves.

Mr. DE ARMOND. They are employed by the insurance companies.

Mr. DAVIS. If they are employed as agents and sent out nakedly as agents, yes; but when an insurance solicitor is required to have a license and puts himself in a class like a lawyer or real estate broker and physician, and he goes to an insurance company with an application, the law says he is the representative of the applicant. If he goes out with credentials of the insurance company and says, "I have come to ask you to insure," nakedly, he is the agent of the insurance company; but there is a large middle ground over which the courts have fought for years, and to-day in this District there is a moot question as to whether when a solicitor—I will give you a concrete case without naming the company; this actually happened.

A solicitor who bore a license here in this District as a solicitor for life insurance went to a merchant here and said "Let me place you in some insurance company," and he mentioned several. The man said "I prefer such and such a one." The solicitor went and got a blank form of application and took it to the merchant. The merchant signed it, signed the application, and then the agent presented the application to the company as coming from the insured through him, and the company declined to recognize the man as its agent at all, and insisted that the solicitor should be recognized as the agent of the applicant; but, unfortunately, that question never reached a judicial determination. That question is liable to arise under existing conditions here and elsewhere almost any time. I am not arguing to sustain it, I am only saying that there is not anything very shocking in the discovery that the agent is treated as the agent of the applicant for insurance, because it used to be very common, and the applicant had to underwrite his name and make the statement "that for the purposes of this application the solicitor presenting the same shall be the agent and representative of the applicant." As I say, the books are full of adjudged cases on the subject.

Only one word in conclusion. Mr. Curry has presented here to-day an amended form of this bill 19154. In my opinion the amendments are proper and ought to be adopted, with a single exception, and that is the initial one, which requires these companies to procure and keep in force a license. Now, what the meaning of that is, unless it be to renew it every year, I don't know; but it can not have any other meaning, and if that be the meaning it ought to go out.

(Mr. Davis read aloud the amendment referred to.)

Now, the bill throughout provides for revoking the license from time to time and under certain conditions and for certain reasons, and it ought not to be left to the power of the superintendent of insurance arbitrarily to say each year whether he will renew the license. Having the power to take it away for specific causes is an ample provision and protection. He ought not to have the power to demand that it be renewed every year and be left with the arbitrary power or even discretion to say that it shall not be renewed from year to year. Given a corporation which has complied with all the laws, has passed the visé of the superintendent and the clerk of the supreme court of the District of Columbia and the recorder of deeds, and has a license to do business, it ought to be permitted to do business until it forfeits its right for some reason assigned, and ought not to be required every year to get a fresh license.

Mr. DE ARMOND. I understand you to be of the opinion that with

reference to such companies as these you represent, or, rather, with reference to legislation concerning them, that inquiries as to how they are organized and how their expenses go—that is, whether one man in effect absorbs a large proportion of what is taken in in these assessments or premiums—are totally immaterial?

Mr. DAVIS. On the contrary, I say this, that for the purposes of this bill—that is to say, a bill which has for its object the protection of the insured—it is quite immaterial how many stockholders there are and the proportion in which they hold their stock; it is not material to inquire—which is quite another thing—whether they are demanding exorbitant premiums and whether they are exacting from the insured more than they ought to and are spending more money for their expenses than they ought to. But this bill requires every one of them to lay bare before the superintendent of insurance every year their entire profits, including salaries, operations, and dividends and everything of the kind.

Mr. DE ARMOND. Can you think that in an effort to have this bill enacted into law there is any special reason why some of these things should not be laid bare before those who are expected to pass on it?

Mr. DAVIS. If you will pardon me, it would not assist my deliberation, and I do not see how it could assist anyone, unless it would develop that there were extravagances in management, and it has already been stated here over and over again that no officer of any one of these companies has ever received a salary to equal or exceed \$2,000; and the only other expense that has been shown to have been incurred is the expense incurred by the agents themselves. And surely, as I suggested the other day, if it is to limit the pro rata of expense for the conduct of the companies to the amount taken in, it is very easy to write that into the law.

Mr. DE ARMOND. I understand, but you are advocating now the passage of a bill which would require certain disclosures, and you are appearing, in part at least, for people who decline to make any of those disclosures before the committee.

Mr. DAVIS. Unfortunately there was a personal situation involved that you were not aware of. Had I been asked those questions in the position of anyone else here I would have frankly answered then, and I have no doubt if you will press your questions—

Mr. DE ARMOND. I am not pressing it.

Mr. DAVIS (continuing). Every one of these companies will give you their salary lists and expense lists.

Mr. DE ARMOND. No; I do not care to do that, but it occurred to me that it might be worth while to know some of these things in passing upon this question.

Mr. DAVIS. It is possible.

Mr. DE ARMOND. Quite possible.

Mr. DAVIS. And for myself I say were I an officer of the company in position to give you the information you should have it.

Mr. DE ARMOND. This Ames bill was drawn, I believe, originally on the theory that this kind of company ought to go out of business.

Mr. DAVIS. No; that would seem so on a casual reading of the bill, but that is not so; the object of the Ames bill was to put out of existence assessment companies that are dependent upon survivors—ante-mortem insurance. We had an example of it. Nobody wants to restore that kind of insurance here. The Ames bill only hits that

kind of insurance, is limited to those that pay benefits upon survivors, and that did not touch this class of companies that we have been talking about here to-day, and the amendment I suggested the other day to the first section of the Ames bill, by excepting this class of companies, will remove any doubt at all as to the application of any portion of the Ames bill.

Mr. DE ARMOND. I think I got from your remarks before that you thought that unless some such amendments were put in it would wind up your companies here?

Mr. DAVIS. No, sir.

Mr. DE ARMOND. I may be wrong.

Mr. DAVIS. What I meant to say and thought I said was this: Reading the Ames bill, it will be seen that there is no provision for this class of companies; but inasmuch as the first section of the bill declares that the word "insurance" or "insurance company," whenever used in the bill, shall be deemed to apply to all sorts of insurance companies, that raised a doubt as to whether these companies might not be brought under the provisions of the Ames bill; and if so, they would be killed, because the conditions required of them by the bill are too onerous for them to bear. That is what I wanted to be understood as saying.

I am very grateful to the committee for its patience.

Mr. CURRY. I would like one minute to make an explanation. I want to state in connection with Mr. Davis's criticism of the clause of the bill requiring these companies to be licensed, to keep the license in force, that that provision was put in because some of the companies that are licensed considered that their license was a license forever, while other provisions of the existing law provide that all licenses shall expire on the 30th of April of each year.

Mr. DAVIS. That is a very different proposition; the license to do business is for the purpose of revenue and has to be renewed every year; the license to do business as an insurance company primarily is intended to keep outside companies from transacting business here until after they have passed the scrutiny of the superintendent of insurance. We can not start until after we have become incorporated and passed the scrutiny of the superintendent of insurance. What is the use of having that done every year—putting it in the power of the superintendent to take away our license?

Mr. CAVE. I know of no State that requires the domestic insurance companies to take from that department or receive from that department an annual license, and neither does the superintendent of insurance of this District, but he is endeavoring to compel these companies to receive from him an annual license when their charter and license given them by the Commissioners of the District of Columbia prior to the enactment of this code gives them a license perpetually until they violate some provision of law, and then they had a right to revoke their license. Now, this sought to compel this class of companies to take out an annual license, when the provisions in that bill are ample, and do authorize him to revoke licenses in case they fail to comply with any provisions of that law.

Mr. CURRY. The difficulty experienced in acceding to Mr. Cave's suggestion would be that the law already provides in other sections that all licenses shall expire on the 30th of April.

Mr. DAVIS. Those are revenue licenses.

STATEMENT OF FRANK ABIAL FLOWER, PRESIDENT NATIONAL MUTUAL BENEFIT CORPORATIONS, WASHINGTON, D. C., AND VIRGINIA.

Mr. Chairman and gentlemen, this Ames bill purports to apply to the District of Columbia, but as it did not originate in or with the District of Columbia, was not prepared in the District of Columbia or by District of Columbia people, was not asked for by the District of Columbia, and, of the five days that have been devoted to the hearing upon it less than one day has been given to District of Columbia interests and persons, and as several important points and interests have not even been referred to, I shall not feel embarrassed if I happen to go beyond the fifteen-minute rule that has been suggested for the District of Columbia speakers.

This bill (H. R. 17760), however, is not what it seems to be. It is a masked battery. Its title originally was "To provide Federal regulation of insurance." Later, while the text of the measure was not materially changed except by expansion, not at all in principle, the title was amended so as to read "To regulate insurance within the District of Columbia."

That the narrowing change in title did not alter the original broad purpose of its authors and supporters seems to be disclosed in many ways by this hearing, and is apparent in the provisions of the bill itself.

In his address to the Chicago insurance conference, which appointed a special committee to amend the original Ames bill, Mr. Ames said:

We come here seeking advisement in our efforts to perfect this code, which we would like to have incorporated into District of Columbia or national law for the double purpose of indirect control of insurance and forming a standard for legislation by the various States.

Before going to the gravamen of the matter, it may be said that if the purpose of the authors was to secure merely a model for State legislation on insurance, nothing further was required than perfecting and printing a bill and pledging the several State insurance commissioners to take it home and induce their States to adopt it.

Such a measure, emanating from acknowledged authority on insurance, would have as much affirmative power as a formal act of Congress. Indeed, if the States really want this bill, they will adopt it, no matter what action Congress may take. Hence, any action here, one way or the other, is unnecessary.

But the conclusion seems to me to be unavoidable that a mere model is not what is being sought—nor what is wanted, primarily—except so far as it may prove to be the entering wedge for ultimate central control of all insurance in the United States, and that, too, according to a provincial plan, the Massachusetts code.

On its face it seems to be a scheme to compel all of the States of the Union to adopt the Massachusetts code of insurance, so Massachusetts will not have to go to the expense of changing her laws, forms, blanks, etc., and, as Mr. Ames says, to do it "indirectly." Even the term "commonwealth" is retained in the Ames bill. (See page 96.)

The courts hold, and it is a maxim of law, that "what may not be done directly shall not be done indirectly."

Mr. Ames several times hinted his purpose, and more than once

openly stated it in his remarks at the Chicago Insurance Conference. On page 36 of the proceedings of that conference, sent to Congress by the President as an official document (Senate Doc. 333), he said that "the general opinion among the lawyers of the House and Senate is that the United States Supreme Court has determined that insurance is not commerce, and therefore Congress is not authorized, under the interstate clause of the Constitution to control insurance."

Then Mr. Ames proceeds to tell us:

So we looked around for some means of control without violating, not the inhibition of the Constitution, but the lack of authority of the Constitution for Federal control.

In other words, he "looked around" for some means of nullifying the decisions of the United States Supreme Court—i. e., controlling as commerce that which the court has declared is not commerce—and, as he says on page 42 of the proceedings of the Chicago Insurance Conference, "looked" for an "indirect" manner of doing it; he "looked around" for a way that is forbidden by the maxims of law and the judgments of courts to make several affirmative decisions of our highest tribunal (see House Report 2491) ineffective and inoperative.

To this curious record the President, not having been able to investigate the matter, gave his official indorsement, sending the proceedings of the Chicago Insurance Conference to Congress to be printed as a public document, and asking that the Ames bill, as amended by that conference, still further amended, perhaps, be enacted into law.

That the President understood this Ames bill to be what it often has been declared to be, an "indirect" method of securing essential Federal control of all insurance in the United States, notwithstanding the decisions of the Supreme Court, is, I think, very plainly indicated by his message on the subject. He says that the Chicago Insurance Conference was the result of disclosures by the Armstrong committee and closes thus:

We are not to be pardoned if we fail to take every step in our power to prevent the possibility of the repetition of such scandals as those that have occurred in connection with the insurance business as disclosed by the Armstrong committee.

As the Armstrong committee did not sit in the District of Columbia—did not investigate a District of Columbia company or a District of Columbia transaction—and as Superintendent Drake has declared that there is no life insurance company in the District of Columbia that would be affected by the fundamental provisions of this bill, the President must have assumed with Mr. Ames himself that this measure was designed and is intended, in some "indirect" way to secure a Federal grasp upon the internal management of insurance companies that have been incorporated in the several States, have their home offices in those States, and are operating under and according to the laws of those States and of the vested charters granted therein.

That in this view the President simply shared the general opinion of those who are "on the inside," seems to be well demonstrated by the fact that all of those who have spoken here in favor of the bill (except Superintendent Drake), as well as many who have opposed all or certain of its provisions, have come from beyond the District of Columbia; that of the five days given to this hearing four days

and two hours were devoted to speakers from outside of the District of Columbia; that there was no suggestion of curtailing debate until District of Columbia interests were reached; that all of the supporters of the measure (save Superintendent Drake) absented themselves soon after the District of Columbia interests appeared here to inquire whether certain destructive clauses of the measure were intended or would be held to apply to them and, if so, to protest against their adoption.

Now, to the old saw that "all is fair in love and war," we may have to add the word "reform."

The reformer in his zeal may feel that he is justified in violating the maxims of law and evading the practical effects of the decisions of courts by doing "indirectly" what he is forbidden to do directly, but Congress, the great constructive arm of the three coordinate branches of government, can have no lot or part in such methods.

However, suppose there were no fundamental objections to legislation of this character; what is the proposition for making it effective?

Superintendent Drake, who says he is not a lawyer, declares in his letter to the President (Senate Doc. 333) that the bill, if enacted into law, will exclude from the District of Columbia all insurance companies which do not conduct their business in New York, New Jersey, California, or any other State not according to their vested charters and the laws of the States under which they are organized, but according to the terms of this Ames bill, though such terms should be in direct opposition to the provisions of law in those States.

Mr. Ames says the same thing. On page 41 of the Proceedings of the Chicago Insurance Conference he declares that companies not doing business in the several States in conformity to the Ames code "can not do business in the District of Columbia."

Gentlemen, is not this an extraordinary proposition? Will you undertake to punish a California company for obeying the laws of California in the State of California?

Suppose—and we have several examples of retaliatory legislation on insurance—that each State in turn should enact a law declaring that no company not doing business in sister States in accordance with the code of the State passing such act should be permitted to do business in said State?

Where would be the District of Columbia companies? Where the State companies? Each would be confined strictly to its own State limits, competition would be destroyed, and some States would be left without adequate insurance protection.

Can a committee of lawyers take under serious consideration a measure that carries possibilities of this character?

The probabilities, we admit, may be more limited. Senator M. G. Bulkeley, president of the Aetna Life Insurance Company, together with other insurance officers, said here that if Congress should enact a law requiring them to violate the laws of their own States, or should pass such laws as could not be complied with without injury to their business elsewhere, they would keep out of the District of Columbia, and, Mr. Bulkeley added, they would lose little. This may not be the language, but it is the substance of what was said.

If the bill should do nothing more than keep State insurance companies out of the District of Columbia, whom would it benefit outside of the incumbents of a number of pretty good paying offices?

On page 36 of the Ames bill we find this language: "Every mutual life insurance company organized or authorized to do business in the District of Columbia shall classify its trustees," etc.

Language of this sort not only goes over into the physical domains of the several States, but may reach the charters of the companies themselves.

This language says that companies which are required by their charters and State laws to classify their trustees one way must violate their charters and those laws and classify them another way or not do business in the District of Columbia.

Other features of the bill, for the ensuing 46 pages, are of a similar extraordinary nature. In direct violation of every known principle of jurisprudence, they aim to control the home operations of State corporations.

To me the proposition is of such a character that it needs only to be stated—not argued.

Some supporters of the measure, realizing, apparently, the legal weakness of the features just mentioned, but wanting the bill to pass, argued that a great Federal bureau of insurance at Washington would enable the several State insurance commissioners to come here for information about companies applying to do business in their respective States.

Those officials, in my opinion, would do nothing of the kind, because either they or their State treasuries want the examination fees for themselves; and some States, without new laws, could not do so.

But suppose the State insurance commissioners wanted to sit in their offices like so many wooden tobacco signs, mere figureheads, and suppose the State of Missouri should ask the Federal commissioner of insurance to investigate an insurance company incorporated and having its home office in Alabama, and doing no business in the District of Columbia, could Congress endow that Federal commissioner with power that would enable him to invade Alabama, at Government expense, and investigate one of its home institutions?

But suppose the legal obstacles to this sort of a proposition were not Himalayan, would it be right for the General Government to pay the cost of investigating an Alabama concern because it was seeking to do business in Missouri?

And while dealing with the probable effectiveness of the Ames bill, if enacted into law in its present shape, I wish to suggest that if the expressed belief of some of its supporters that in case of enactment it would be adopted by the various States should come true, what would be left to be done by the large and expensive office force for which the bill provides?

The various States would be administering the law, which would be the same everywhere in their respective jurisdictions, and this \$50,000 office would have nothing to deal with except the flyspeck District of Columbia, which contains less than one twenty-fourth of the population of the country.

Insurance Commissioner O'Brien, of Minnesota, declared that the Ames bill ought to pass because so many insurance agencies are being closed and so many solicitors are seeking other employments.

Is it the province of Congress to rescue private business from depression?

Now, as to some specific points that have attracted considerable attention during this hearing. First, as to publishing the names of policy holders. It is a serious proposition, fraught with embarrassments and expense and without a redeeming feature that I can see. Let me just scratch the surface of actual experience: A man had a second wife who mistreated the daughter of her predecessor. He came to the office and wanted to know if he could carry insurance for the benefit of that daughter and be sure that no one but himself and the officers of the company should know of it. We told him that he could, and he took it out.

Two of three sons were profligate. The parent came to the office and asked if he could carry a policy in favor of the son who was not profligate and the transaction be secret. We told him that he could, and he took it out.

I dare say that more than 10 per cent of all of the unmarried men carrying insurance in our company have their policies made payable to sweethearts—the women they expect to marry—and this, too, without the knowledge of the women. In cases where marriage does not follow the insurance is transferred.

Even young women come in confidence and take out insurance in favor of the men whom they hope to marry.

This is the experience of every life insurance company, and I have not indicated a twentieth of the secrets of this character that are carried on the books of the companies as faithfully as a life would be guarded.

Society has little idea of the romances and tragedies that are hidden in the vast insurance archives of the country—and did you ever hear of such secrets being betrayed? Should they be forced out by law?

Gentlemen, do you know of any good reason for invading these sad, tender, and sacred records? If you should undertake to do so, I venture to say that there are insurance officers who would never submit without a judgment of a court of final resort.

Next, limiting expenses. Limiting expenses is no doubt limiting the volume of business, and there are certain kinds of insurance which require a constant accretion of new business, and a certain volume of it, too, in order to protect the old business.

Suppose this principle were to be applied to railway, sawmill, mining, printing, law firm, creamery, and other corporations.

Is it not an extraordinary proposition in law?

Why, Congress does not even limit its own expenses, nor the amount of its annual business.

As to a standard policy, so-called, I think I can see how it might be made to violate the principles laid down in *The United States v. The Joint Traffic Association*, 171 U. S., 505.

In that case the Supreme Court held that any agreement or contract which in effect prevented competition between the parties was a restraint of trade and in violation of law, "even though the rates charged under such agreement be reasonable."

In industrial insurance especially a uniform policy would prevent competition, because some companies write "immediate full benefit" contracts, while others give only one-half or one-fourth. Some grant "grace periods," and some do not, and some pay for sickness from

diseases which others exclude from their policies. One company, at least, that I know of, pays insurance in land.

The terms constitute almost as essential portions of the value of industrial insurance contracts as the rates of premium.

Therefore, for Congress to enact a law which would destroy or partially prevent competition in the insurance business, while the courts and administrative departments are struggling to punish the beef trust, the drug trust, and similar combines for doing that very thing, would be an exceedingly interesting performance.

No insurance commissioner should, in my opinion, be given power to change the form of policies or contracts without providing some effective appeal from his action and some method of compensating the companies for any loss or damage that might result from exercising such a power.

Under such an autocratic grant an insurance commissioner might, if so disposed, kill off or drive from the territory a new company that was trying to gain business and favor by offering more liberal terms than its older or richer rivals—a power he ought not to possess without restraint or review.

As I read it, the Ames bill prohibits paying insurance in land, and, perhaps, prohibits what is called "baby" insurance, as well as several other forms of organized indemnity.

By "baby" insurance is meant paying a certain sum at the birth of a child. This is important to the poor in localities which prohibit any but licensed midwives and physicians from attending accouchements.

Paying insurance in land, or houses and land, is one of the most valuable as it is one of the most interesting forms of indemnity known. The details of this kind of insurance vary, but as carried on in the District of Columbia, Virginia, and elsewhere in the South, the usual method is for the assured to take out a policy containing a clause which in effect is a land lease. The contract provides a weekly benefit in case of sickness or accident, thus enabling the insured to keep up his land-lease payments, and promises a deed of the land to his heirs or assigns in case of his death.

In the meantime the companies permit the assured to build and live on the land, thus saving rent, and the stronger companies even go so far as to build a house for him without any advance cash payment except the regular weekly installments—insurance, land, house, and all being carried by the insured by small weekly payments, which the company agents collect from him at his house, generally after his day's work is done and after all other business offices are closed.

Several times during this hearing I have noted sneers at the small capital and humble operations of the companies which do this kind of business. These "small" corporations furnish protection and opportunity for home buying to the weak and poor which can be got nowhere else, and—I beg pardon for sermonizing and paraphrasing—

Let no reformer mock the useful toll,
The homely joys, the destiny obscure,
Nor schemers hear, with a disdainful smile,
The short and simple annals of the poor.

And now that it is in mind, I wish to say a word or two in explanation of industrial insurance, which I see plainly, by the character of

the questions asked and the remarks on the side, is not understood here.

Our country contains over 10,000,000 negroes, and more than 20,000,000 unendowed whites, who, so far as capacity to earn and save is concerned, are in essentially the same class as the negroes. Generally they have large families and live mostly by rude labor. The returns of rude labor are small. Therefore, to this 30,000,000, white and black, some form of indemnity that will take the place of the employer when they are sick and therefore not only without wages but under an extra expense, is far more necessary than to any other class of people. In fact, to many it is that or public charity.

It is not so necessary that the total cost of the insurance be low as that the payments be so subdivided that they can be met weekly out of a moderate or meager wage.

The people thus insured are at work, generally away from home during the day, and unable to go in ordinary business hours to pay their premiums. If they were required to do so, the street-car fare and other costs might be more than the premiums, thus making insurance impossible.

So to each person thus insured is given a stiff card, properly printed and ruled, which contains the essence of the contract, and which he keeps at home. Collectors go to his house every week—or every day till they find him—and, as they collect, write on this card the amount paid, the date of payment, and the time to which the payment carries the insurance. A like record is made on a blank which the collectors retain and which in turn is copied into the office records, so that errors, thievery by the collector, and misrepresentation by the insured are practically impossible.

The insured is also provided with a printed "sick notice." When he falls ill enough to be entitled to benefits he sends this sick notice, together with his receipt card, to the office, and, if not in arrears, begins then to draw the weekly benefit specified in his policy.

This benefit is paid to him every seven days at his house, not at the company's office, and continues for the time specified in the policy, if the disability shall last that long.

Right here I desire to refer to a denunciation which I heard a member of the committee make to himself because industrial policies or applications constitute the person procuring the insurance the agent of the applicant.

This seems to be necessary. The solicitor is licensed and therefore responsible. If he were permitted to be the agent of the company and to hold the company to anything he might write in the application, the strongest concern could be put out of business in a year, for dishonest agents, in collusion with dishonest applicants, could bring in applications of uninsurable persons so worded and falsified that they would be accepted, whereas if the truth were known, or agents could not bind the company by a falsehood, they would be rejected.

This business is full of special features and forms of expense. Each policy entails more than fifty times as much labor as an old-line policy, with its annual and semiannual premiums paid by check; but when we compare the labor and cost of securing and carrying industrial insurance, with its more than fifty collections per year and its complicated systems of accounts, the premium rates are lower than on any of the old-line policies.

In any event, industrial insurance affords protection from the hospital, public charity, the almshouse, and the potter's field to those who can neither get nor carry any other form of indemnity.

Not only so, but it is the only widespread influence that is teaching a weak, untrained, and naturally thriftless race but recently emerged from bondage the necessity of forehandedness, of laying by for a rainy day, of preparing to meet regularly recurring obligations.

It is not only the only instrumentality in Virginia, Maryland, the District of Columbia, and elsewhere through the South that enables the negro to take care of himself, but it is the only one that saves thousands upon thousands of them from public charity and the potter's field, and therefore is as direct a benefit to the tax payer as to the insured. It is of special interest to Congress, too, which is called upon every year to make appropriations for institutions of charity in the District of Columbia.

An officer of the District who was for thirteen years connected with the public charities informed me that without industrial insurance Congress would have had difficulty in finding land enough for the potter's fields that would have been required for our 100,000 negroes and our 50,000 unendowed whites.

Another officer declared that the present cost of coffins for public burials is not one-eighth as great as it was in 1880, when the population, without industrial insurance, was less than half of what it is to-day.

Therefore, instead of being a business to be sneered at and subjected to unusual burdens and restrictions, it is one of all others that should be specially insured against such restrictions and burdens and, if possible, promoted and expanded.

The use of the word "insured" at this moment opens the way for thoughts of the most fundamental character.

There is essentially nothing desirable above the dead level of jungle barbarism that does not contain the element of insurance. We plant in the spring to insure against hunger during the coming winter. We build houses in order to insure against loss of health and life by inclement weather. We accumulate property as an insurance against the wastes and losses of business, destruction by nature, infirmities of age, and so on to the last item in the entire fabric of social and industrial activity.

In fact, gentlemen, Congress itself is the foremost of all insurance companies. The people elect and pay premiums to its Members for the purpose of insuring domestic tranquillity, protection against foreign competition and foreign invasion, an efficient postal service, open courts of justice, and the thousand and one things which constitute civilization and promote the general welfare. Government is insurance, nothing else.

As ordinary insurance companies appoint agencies here and there to gather and protect business and accommodate patrons, so Congress appoints agents in the form of committees to insure the central body and the people against imposition and injury by designing persons and selfish interests, the motives, objects, and effects of whose bills and schemes can not always be known without careful medical examinations such as the one now being conducted by this committee—this insurance agency.

Going a step further with the analogy, the vast business of insurance should not be indiscriminately punished, restricted, or assaulted because of irregularities in a few places, any more than the great insurance corporation of Congress should be kicked bodily out of this Capitol because a few of its Members are being convicted of rascality and sentenced to jail.

Acts of Congress are policies of insurance to the people. Such policies should be sound and liberal. They should remove, not create, unnecessary burdens; open, not restrict, competition; curtail, rather than enlarge, taxation; open the way for new companies, not create conditions antecedent that will give a perpetual monopoly to the present corporations, which, Senator Bulkeley told you—and Judge Sterling declared that he was appalled by the prophecy—will in twenty or twenty-five years absolutely control the financial affairs of this nation.

Can the Congress do that? Yes; abundantly, in my opinion, within the range of its power, but not by passing this Ames bill nor any other of the measures relating to insurance that are before you and which carry possibilities that none but persons skilled in the technicalities of insurance are able to detect, but by creating an entirely new corporation code for the District of Columbia somewhat along the lines of the Palmer bill (H. R. 263), but not by any means confined to permitting "commerce" between the States.

In searching for material for such a code keep in mind the fact that you wish to see how much can be left out, not how much can be squeezed in.

What Congress wants is not a law that controls and hampers the details of internal management of corporations, but one that retains full jurisdiction to keep tab on their main operations so far as they relate to or affect the public welfare.

First, I would make a thorough examination of the various corporation codes of the country, and of the decisions of courts in relation to their fundamental features, and likewise a full investigation of the insurance laws and practices of all countries. Having done that—

1. Frame a code along simple, generic lines.
2. Leave managerial details to by-laws.
3. Make all fees moderate and graded in proportion to the size of the companies paying them.
4. Permit executive or "main" offices to be located wherever convenient.
5. Permit meetings of directors and stockholders to be held wherever convenient.
6. Provide for a certificate of authority to do business for filing in the several States and in foreign countries.
7. Require copies of by-laws to be kept on file and reports to be made annually to a designated department at Washington, accompanied by a graduated franchise or license tax, levied in moderation, for the purpose of retaining active jurisdiction of the corporations chartered under the code.

The privilege of taking out a charter in the District of Columbia, but maintaining the main or executive office elsewhere, is important. The present code of the District is about as absurd as could be conceived. It requires the charter to declare just at what street number

the main office is to be maintained, so that if the building at that particular spot shall be destroyed by fire or shaken down by an earthquake and not rebuilt, or if expanding business shall make a removal to larger quarters necessary, or if the corporation shall desire to erect or purchase a building for itself elsewhere, no change can be made without a direct violation of a main provision of the charter.

The corporation codes of the several States are similar in character, nearly all of them requiring the charter to state at what point in the State the main office is to be located. They also require a majority of the incorporators, and frequently a majority of the directors or trustees, to be citizens of the State, and all meetings to be held within the State.

As many concerns take out charters for operations not carried on within the State, these provisions entail unnecessary burdens. They are successfully evaded through the instrumentality of companies formed for the purpose of furnishing the required number of citizen trustees or directors or incorporators and of going through the motions of keeping open a local office.

Thus, while the letter of the law is technically obeyed, the spirit of it is openly and flagrantly broken and the entire charter code brought into contempt.

A corporation code should accommodate itself to the requirements of modern business and be itself honest if it wishes the concerns organized under it to be honest.

Under such a Federal code, in my opinion, practically all companies or persons doing or desiring to embark in interstate business will gradually gather, and Congress, without costly and exasperating beef-trust suits and other investigations, will be able to keep tab on their operations, so far as it may be necessary to do so—in any event never lose jurisdiction of them.

To the objection that some time may be required to formulate such a code I answer, there is no reason for not taking all of the time that may be necessary.

So far as making a "model" insurance code for the several States is concerned, Congress is estopped from that, in my opinion, by the fact that the various State insurance officers will hold a meeting in September for doing that very thing.

There is nothing in the local insurance situation requiring precipitate attention. All of the local companies are paying their claims promptly and enlarging their business; the superintendent of insurance, under section 646 of the District of Columbia Code, has almost unlimited authority to look into and correct abuses, and his office is open to any complaints, without cost or fee, which the policy holders may desire to file. His office is and, I have been informed, has been for some time, free from such complaints.

So, as I said, there is no need for precipitancy. The only element that I can see that might induce haste is the one requiring a way for forming new insurance companies. The Armstrong law, we are told by the ablest insurance men who have appeared here, imposes conditions which render the organization of new insurance companies essentially impossible. This Ames bill does the same thing, and so does every other insurance bill that is on file before you that I know of.

Those gentlemen who told you here that you should pass some law

rendering the organization of new insurance companies difficult or practically impossible by requiring large deposits of bonds, etc., in order to prevent a band of their own employees from going out and forming a new company whenever they might see fit, would not have been here if such a law had been in force when they themselves left their employers and embarked in the insurance business.

Congress can not insure existing insurance companies, great or small, as perpetual monopolies so long as the growth of the country in population, strength, and necessities can not be restrained.

To do so would be flying in the face of the principles underlying all court decisions, playing into the hands of the great insurance companies, which Senator Bulkeley declares will rule the finances of the nation in twenty years, and flying in the face of the recommendations of President Scovel, whose constituency is greater and more important than that of any other person who has appeared before you, and who declared that the crying need of the time is for numerous small new companies to take up the various branches of insurance along modern economical lines.

This need can not be met by making original capital requirements very large nor by providing for a heavy preliminary deposit of bonds when there is no business to "protect." If, let us say, \$100,000 in capital and the same amount of bonds is not too much to "protect" the policies of new companies—when, really, they have no liabilities—then it is far too small to afford "protection" to the policy holders of the old and big companies. If this amount is, in fact, sufficient to protect the policy holders of the old and big companies, then it is merely the device of Herod to kill off the young companies and prevent the birth of new ones.

In fact, to be frank, I may say that this is the object of the bill, as clearly understood by all practical insurance men.

Let companies begin business with whatever amount of capital they may deem necessary. If they prosper and grow, they can and will add more capital. All of the big companies in the United States were small and some of them mighty weak in the beginning.

Remember, too, that certain kinds of insurance require no large capital at any time and essentially no "reserve." The membership is both assets and reserve. If the members pay according to their contracts, there will be money with which to meet liabilities as they become due. If they lapse, there will be no liabilities. This is particularly true of industrial insurance.

The danger to policy holders from failure of life companies is a phantom brought here for a purpose that ought to be easily detected. Any company can at any time reinsure or sell its risks, if such a course shall seem necessary or desirable. In fact, it can make money by disposing of its risks, great or small, for every company has to pay good money for its business.

If it is really desired to protect policy holders, enact laws that will make certain the punishment of agents and officers of companies for wrongdoing. The bills before you do not do this; they merely put burdens and restrictions upon the company, and burdens upon the company mean, invariably, burdens upon the policy holder.

Give the people a statute that will prevent the agent or officer of any company from interfering with the business or policies of any

other company, from "twisting" and breaking up the business of other companies, from misrepresentation and deception either to get business for himself or kill that of others.

A policy of insurance in the hands of the insured ought to be as sacred as any other form of property. At present, in the District of Columbia, it is not. An agent may and does go into the house of the ignorant and, finding a policy written by a rival company, says to the owner that his policy has an error in it which he wishes to correct. He takes this valuable contract and destroys it and the next day brings back one written by his own company, on which he receives a commission.

This sort of business is not carried on in the ignorance of the companies, but to a certain extent with their knowledge and approval; and it is one of the items which make the business costly and is one of the ways in which unlettered policy holders are cheated. It ought to be stopped, and, if perpetrated, severely punished.

The attempt of some of the bills before you—the Ames bill is not guilty of this—to subject all companies to a flat amount of bond deposit is as absurd as it is wicked.

It is like attempting to assess all farms at \$10,000 or \$100,000, regardless of size or value.

It is like attempting to prohibit any person from being elected to Congress who has not already served in that body.

It is like refusing to grant marriage licenses to such couples as can not "deposit" a certain number of children—can not show an already reared family of an arbitrarily fixed size.

Further, to make such provisions apply to companies now engaged in business is in violation of that clause of the Federal Constitution which forbids the enactment of laws impairing the obligation of contracts.

To bring bills of this character before Congress is no compliment to its Members.

LETTER FROM THE SECRETARY OF THE MUTUAL FIRE INSURANCE COMPANY OF THE DISTRICT OF COLUMBIA.

WASHINGTON, D. C., *May 10, 1906.*

HON. THOMAS E. DRAKE,
Superintendent of Insurance, City.

DEAR SIR: We would respectfully submit for the consideration of yourself and others concerned in the drafting of what is known as the Ames insurance bill, H. R. 18804, some facts relative to this company, with a suggested amendment to the bill.

A glance at the mode of operation of our company will show that it is conducted on a purely mutual basis. It was organized, by a special act of Congress, in 1855, and under its plan of operation the policy holders pay a cash premium, or interest on their deposit notes, the latter being subject to assessment. During the fifty-one years it has been in existence no assessment has been made, but instead the cash premium received has in nearly each year proven to be more than sufficient to pay the losses and expenses, and the overplus has been credited to the account of each policy holder, the total of the policy accounts forming the present assets of the company exclusive of deposit notes. On withdrawal of the policy, upon sale of the

property insured or otherwise, each member is given his or her proportion of the assets credited in the manner above stated. The company does not employ agents, neither does it pay commissions nor excessive salaries to its officers. The insurance carried on its books on December 31 last was approximately \$17,000,000. The premiums received during the past few years have annually amounted to about \$27,000, an estimated yearly saving to the policy holders of about \$50,000 over the usual rates of stock companies.

We, of course, are in hearty sympathy with the scope and general principles of the proposed act, but some of its provisions make radical changes in several instances in our business as now being conducted, and therefore we feel that their enactment into law will seriously affect its interests.

Section 57 of the proposed law provides that a member shall be entitled to one vote for each policy he holds. Since January 12, 1857, each of our policy holders has had one vote for "each piece of property separately and specifically insured." For sake of convenience a great many of our policies contain several houses or pieces insured therein. The proposed law would cancel many votes of the policy holders, or else would cause more than a majority of our 8,000 policies to be rewritten at a great labor and expense in order to give the same representation to each member. It is not customary for us to yearly rewrite our policies, but only to renew them on a blank provided in the policies.

Said section 57 also provides that a written notice shall be sent to each member notifying him of the time and place of holding the meetings. Section 12 of the charter of our company provides that notice of the meetings shall be given in two newspapers published in the city of Washington, at least two weeks previous thereto, and since the organization of our company in 1855 such notice has been given daily previous to the meeting.

Section 58 provides that members may vote by proxy, dated and executed within three months, and returned and recorded on the books of the company three days or more before the meetings at which they are to be used, but no officer or agent shall himself, or by another, ask for, receive, or procure to be obtained or use, the proxy to vote.

Since January, 1870, and likely prior thereto, the members of our company have used in giving proxies the following form, very few of which now in force bear any but a recent date:

I hereby constitute and appoint _____ my true and lawful attorney (with power of substitution and revocation), for me in my name and behalf, to act and vote at the annual meeting of the members of the Mutual Fire Insurance Company of the District of Columbia, to be held on the third Monday of January, 190—, and at all subsequent meetings of said company until this power shall be revoked. I revoke all former powers of attorney given by me in the premises.

In addition, for many years, certainly for thirty-six years, the officers of said company have voted proxies of absent members at the annual meetings. The business of the company by its charter is confined to the District of Columbia. The company is managed by policy holders, and members can at any time ascertain the true condition of affairs and if necessary make any desired changes in its officers. Its officers are well known, as a rule, to each policy holder

and have the confidence of the members, being deemed worthy by their administration and service. The proposed law (prohibiting an officer to ask for, receive, or use a proxy to vote) would more than likely cause a turmoil at each election which we fear would finally be the means of causing its dissolution. For (in the language of the president of the Connecticut Mutual Life Insurance Company, where proxy voting has been exercised since 1847, the officers usually voting the proxies) "this corporate right and privilege upon which the safety of the corporation depends should not be delegated to strangers, to exploiters, to promoters, to wreckers, to speculative financiers, who have nothing but their own selfish or nefarious ends to serve."

Many of the members of this company know little of the business of insurance and have learned to rely upon the officers to safely conduct the business. The fact that they have for so long a period intrusted to the officers their power of representation in the meetings of the company, usually about 9,000 of the 15,000 voting risks, is a striking evidence of their confidence. We do not feel that the members should be deprived, in an institution of this kind, of this right of having the officers represent them. Being a purely local institution the members obtain their information in regard to the conduct of the company at first hand, and can easily make a change in the management should they deem the same to be necessary.

Therefore, in view of the local character of this company and its long operations under conditions that have been so successful, we feel that Congress would not desire to make any change that would seem uncalled for or not desired by those directly interested. Accordingly, we would respectfully suggest and request that the act be amended so as not to apply to purely mutual fire insurance companies confining their business wholly to the District of Columbia.

Yours, very truly,

L. PIERCE BOTELER, *Secretary.*

LETTER FROM THE PRESIDENT OF THE EUREKA LIFE INSURANCE COMPANY, BALTIMORE, MD.

BALTIMORE, MD., *May 14, 1906.*

THOMAS E. DRAKE, Esq.,

Superintendent of Insurance, Washington, D. C.

DEAR MR. DRAKE: I inclose you a copy of the proposed amendment.

Yours, truly,

W. S. GILLESPIE.

Insert after the word "policy" in line 18, page 7, the following:

Also, that any organization, association, society, or fraternal beneficiary order, with or without a ritualistic form of government, but which collects its dues or assessments weekly or biweekly, shall be deemed to be an insurance company and shall comply with the provisions of this act governing such organizations.

A fraternal beneficial association shall collect its dues or assessments from its members monthly, bimonthly, or quarterly, and shall cause to be delivered to the residence or post-office address of any such member, notice, two weeks in advance, that such assessment or payment be due, and it shall not be lawful for any such fraternal beneficial association to collect from any member more than twelve of such payments in any one year.

Also, that any organization, association, society, or fraternal beneficiary order, with or without a ritualistic form of government, but which collects its dues or assessments weekly or biweekly, shall be deemed to be an insurance company, and shall comply with the provisions of this act governing such organizations.

MEMORANDUM NATIONAL SURETY COMPANY.

Companies shall be required to carry as an unearned premium reserve until the expiration of the bond in the sum of 50 per cent of the annual premium paid, or agreed to be paid, and no company shall be permitted to deduct its legal-reserve liability, month by month, as the term of the bond becomes partially expired.

No company shall be permitted to issue bonds, policies, or renewals thereof during the months of a certain year, but which become effective in the following year, taking credit in the preceding year for the paid or unpaid premiums thereon, nor shall such companies be required to carry a liability on such bonds, policies, or renewals so issued during such certain year (this is to prevent any company from executing bonds, renewals, or continuations in the months of November and December, taking credit for such business in the year when these bonds, policies, or renewals are issued, but where they become effective the following year).

The value of real estate holdings of companies shall be computed upon their net earning capacity on a basis of at least 3 per cent, and no more. Companies may enter in their assets items known as "bills receivable" where the standing of the debtors are above question, but in no case shall any "bills receivable" be permitted to be carried as assets by any company unless such bills shall be due and payable within twelve months from the date of the financial statement being made by any such company.

Companies may carry as assets items known as "advances on contracts" where the company has advanced money to contractors, where it is surety and where the company has reasonable grounds for believing it is secured and that the advances so made will be repaid within a period of twelve months after the said financial statement shall have been executed by the company.

All companies shall be required to report to the commissioner the full amount of each and every bond, policy, or renewal issued by such company, and no company shall be permitted to execute a bond for a specific sum and report the bond to the commissioner for any lesser amount.

No company shall be permitted to execute a bond where the risk is computed by such company at over 10 per cent of the capital and surplus at the time of the writing of such bond unless such company shall have reinsured the amount in excess of said percentage in a company organized under the laws of the United States, and in no event shall any company execute any bond under any circumstances for an amount in excess of 20 per cent of its capital and surplus.

Every company shall report to the commissioner each and every action brought against it alone or brought against the principal on any bond executed by it, and where such company is joined as a co-defendant, showing the amount of liability being carried for each and every case.

Whenever any company shall have deposited sums of money according to the law in various States, known as general deposit or special deposit, the company shall be entitled to credit for the full amount of such deposits, instead of such assets being eliminated from the financial statement of said company, less the amount of reinsurance reserve and unpaid losses the company is carrying as liabilities in such States.

The argument should be used that surety companies, as far as the execution of bonds are concerned (outside of fidelity and fiduciary bonds), is in reality a banking or trust company, whose credit it is lending to the principals, where such bonds are executed, instead of being regarded as an insurance company. Special provision, therefore, is necessary for the proper conduct of surety companies, and they should not be put in the same class with casualty companies or other insurance companies. It is frequently the case claim will be made against a surety company for a large sum of money, and the company in the end, by reason of obtaining salvage, may suffer no loss, and in this respect a surety company is almost entirely dissimilar from any other kind of insurance. It is rarely, if ever the case, where much salvage is recovered by fire companies, and if so a small percentage. There is never any recovery for accident companies, casualty companies, and only occasionally for burglary companies.

LETTER FROM THE SECRETARY OF THE EQUITABLE INDUSTRIAL LIFE INSURANCE COMPANY, DISTRICT OF COLUMBIA.

WASHINGTON, D. C., *May 7, 1906.*

DEAR DRAKE: Here are two amendments. Will your department propose them? Is it necessary for the company to appear and argue? There should be no contention as to fairness among the informed.

Respectfully,

ALLEN C. CLARK, *Secretary.*

MR. THOMAS E. DRAKE,
Superintendent of Insurance.

Page 26, in the eighth line, after the word "dollars," insert "except the companies incorporated before the date of this act; the capital of the companies so before incorporated shall be that required by law at the time of their incorporation."

Page 47, in the eighth line, after the word "policy," insert "Other than industrial policies."

STATEMENT OF WILLIAM C. JOHNSON.

Mr. Chairman and gentlemen of the committee, I have been carefully over the proposed amendments to H. R. 18804, commonly known as the Ames bill. With one exception, and with the corrections noted below, the amendments all seem to be proper and in the right line.

Please note the following suggested corrections to these amendments:

On page 15, line 18, it is proposed to insert, after the word "issued," the words "after the thirty-first of December." "Nineteen hundred and six" should be added in order to make the date certain and definite.

On page 16, at the end of line 11, it is proposed to insert certain matter set out in the amendments forwarded, and the matter in question winds up with the words "superintendent of insurance of this

State." These words should of course be stricken out and the proper description put in as follows: "The insurance commissioner of this District of Columbia."

On page 23, line 6, it is proposed to insert certain new matter after the word "companies," and in view of the new matter to be inserted, the words "one per cent per thousand dollars" should of course be omitted. The striking out of these words is not noted in the memorandum sent me.

On page 33 it is proposed to put in new provision ninth, in the next to the last line of which appears the word "corporations." The word should be "corporation," and the "s" should be omitted.

On page 34, line 3, it is proposed to insert the words "a domestic" before the word "company." The word "the" which now appears before the word "company," should accordingly be stricken out.

On page 35, line 12, it is proposed to strike out the words "corporate powers shall thereby expire." The next word "and" should also be stricken out if the sentence is to make sense.

On page 37, at the commencement of line 2, it is proposed to insert certain words. This necessitates the striking out of the word "that," with which the sentence opens. The striking out of this word is not noted in the matter sent me.

On the memorandum sent reference is made to page 37, section 7, which undoubtedly should be section 37, which is the one referred to.

On page 38 it is proposed to strike out in line 22 the words "shall any" and insert in their place the word "no." To give meaning to the sentence the word "shall" should be inserted after "person" in the same line, so that the sentence will read "and except as herein-after provided no one person shall act or vote as proxy," etc.

On page 42, line 10, it is proposed to strike out section 47 and insert a new section. In the new section proposed in its fourth line, the next to the last word, after the word "annually" now appears the word "of." It should be "with."

On page 44, line 7, it is proposed to strike out section 48 and insert a new section. In the fifth and sixth lines the proposed new section as given in the memorandum before me reads, "computed according to the standard adopted by it under section 84 of this chapter." This section is evidently copied from a recent New York statute, and reference is to the section of the New York law and not to the section of the Ames law. It should be made to read "computed according to the standards provided by section 10 of this act."

The various amendments suggested to pages 44 to 47 do not refer to the lines as given in the printed copy of the bill before me. Either the bill has been reprinted, or else in the memorandum the lines are not correctly stated.

I have not attempted, in going over this matter, to suggest any new amendments, but merely to suggest needed corrections to those before me.

I referred in my opening paragraph to one proposed amendment which is improper, in my judgment, and which doubtless has an ulterior purpose behind it. I refer to the proposed amendment on page 36, line 17, "provided that at least a majority of said board shall be residents of the District of Columbia." It is, as I understand, proposed that Congress shall adopt a law carefully and properly drawn, which will serve as a model which should be followed

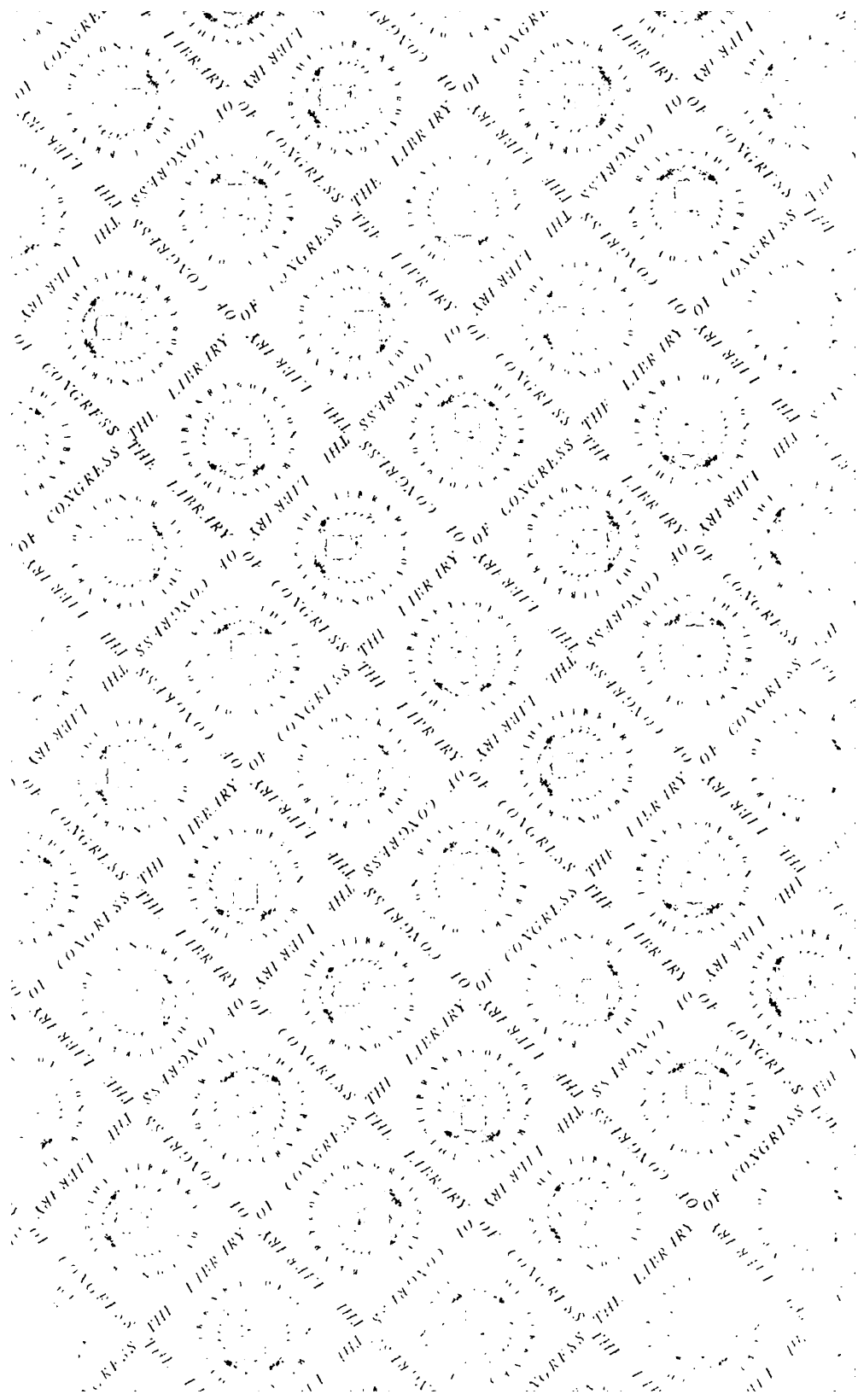
by the States generally. If the District adopts a law which in the judgment of trained insurance men is a sound one from all points of view, it might very possibly lead men organizing new companies to incorporate in the District, so as to be subject to the provisions of this law. If the prestige of the law were such that it will allow new companies to select the District of Columbia as the place for incorporation, it would follow naturally that the States would be led to adopt a similar law. If a body of men in the State of New York sought incorporation under the District law, they should be able to incorporate there. It would be in the interests of the District itself and in the interests of good insurance practice to have them incorporate under a model law. But the requirement that a majority of the directors should live in the District of Columbia, in my judgment, will prevent the incorporation of new companies in the District.

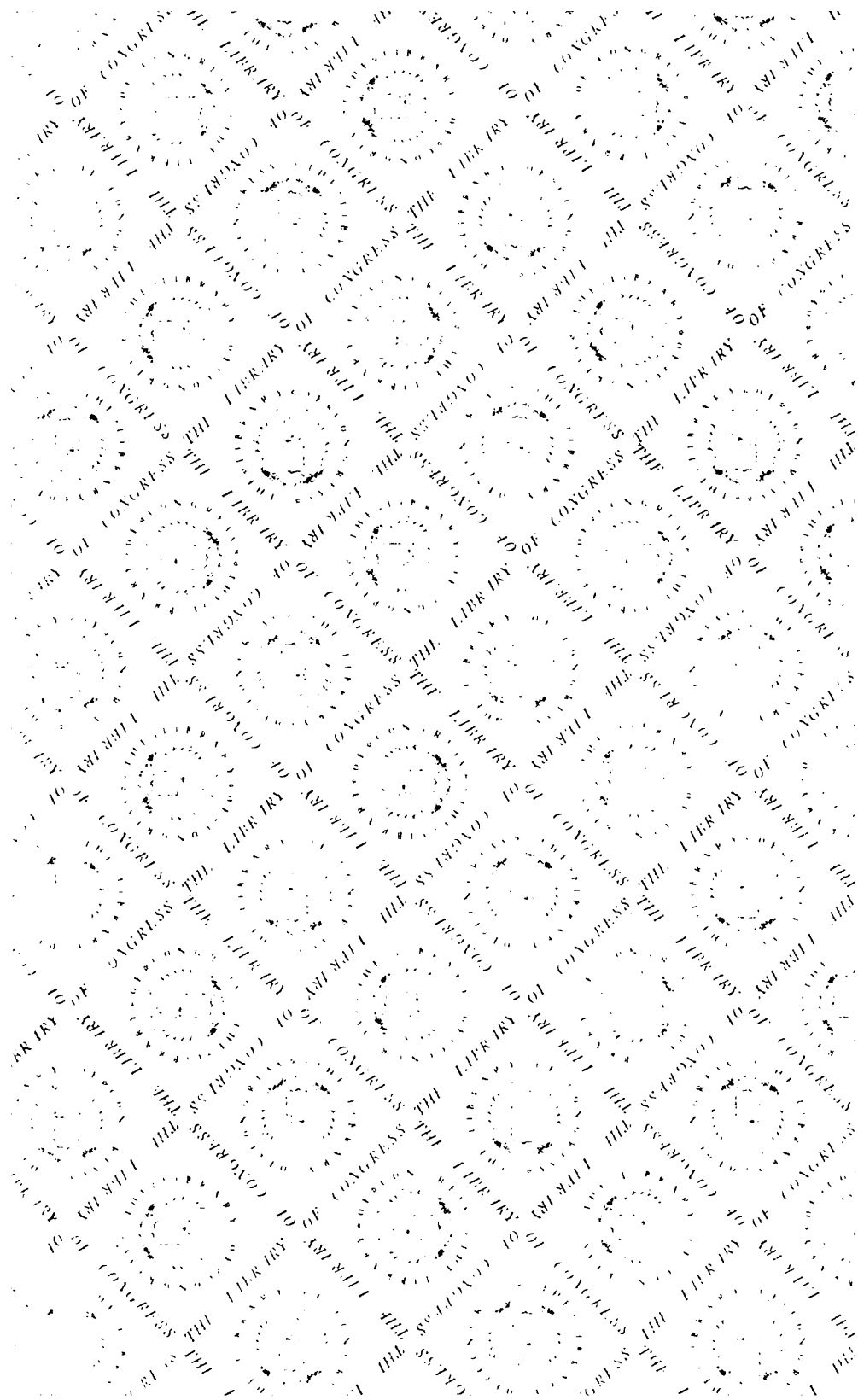
There are not so many leading business men, or eminent lawyers, or sound bankers, or representative citizens living in the District of Columbia that they would serve to go around if there were many new companies incorporated. It might possibly be that certain interests should desire to incorporate a new company, making up their board, say, of thirty-six, and having on it a few representative men from New England, a few from the South, a few from the Middle West, some from the far West, some from the Southwest, some even from Canada or from abroad. I am inclined to think that whoever suggested this amendment suggested it purposely, in order to prevent the incorporation of new companies in the District of Columbia, or for some ulterior purpose. It seems to me that putting this amendment in simply destroys the object which I understand is in view of having Congress pass such a model law that it will meet with the approval of the public and insurance men generally and enforce its imitation by other jurisdictions. If no new companies incorporate under this law when it is passed other jurisdictions may conclude that it is not a sound and attractive one, and that if adopted it would be to discourage the organization of new companies, and so would refrain from adopting a similar one.

As I look at it I can see no sound reason for the amendment in question.

Mr. STERLING (in the chair). I believe that closes the hearing. No other gentlemen here have indicated any desire to address the committee, and therefore we will declare the committee adjourned.

(Thereupon, at 4.45 o'clock p. m., the committee adjourned.)





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